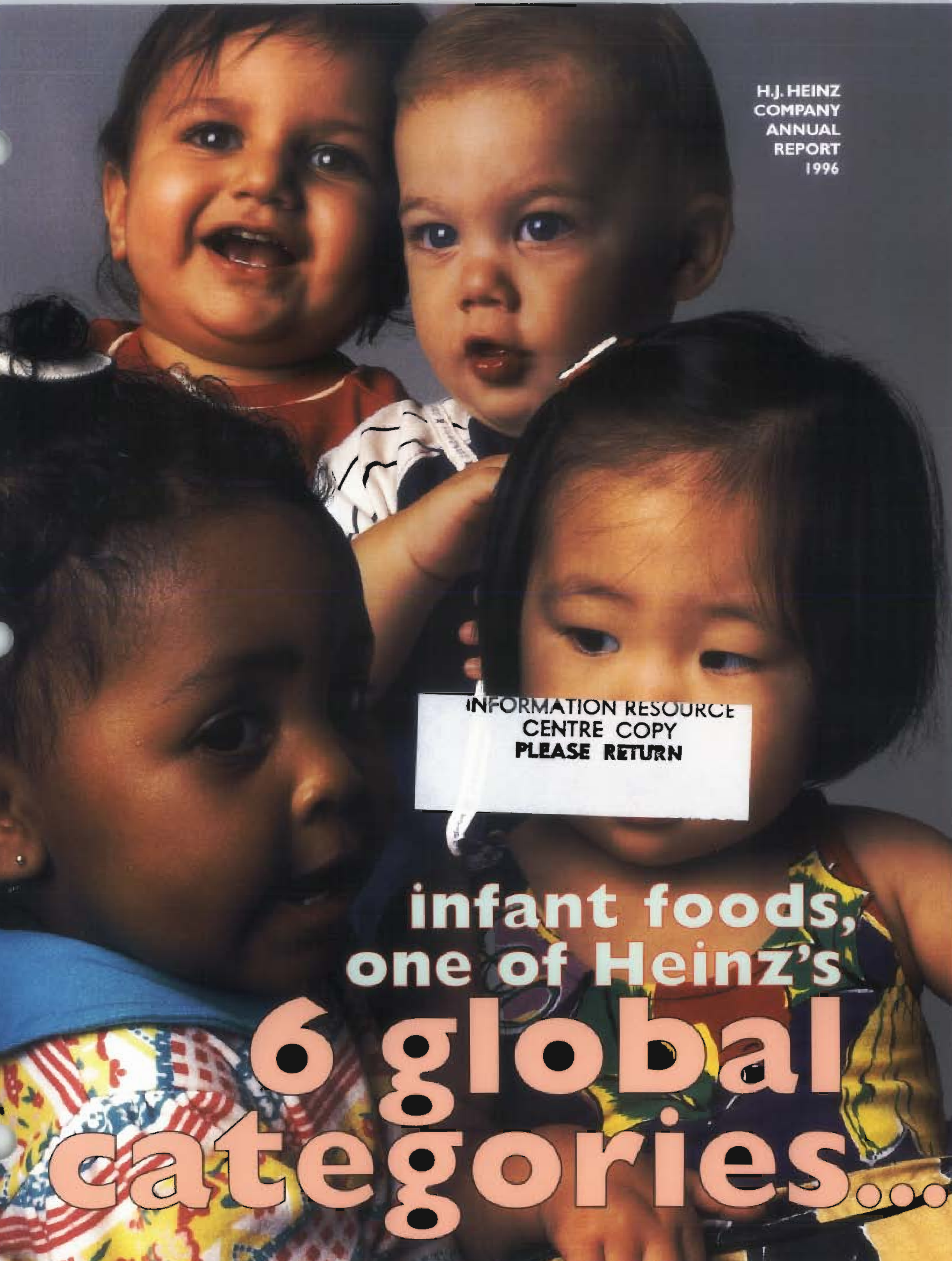


H.J. HEINZ
COMPANY
ANNUAL
REPORT
1996

infant foods, one of Heinz's 6 global categories...

the other 5 are:

foodservice
ketchup & condiments
pet food
tuna
weight control

HIGHLIGHTS

H.J. Heinz Company and Subsidiaries

	1996	1995	1994
(Dollars in thousands, except per share data)	(52 weeks)	(53 weeks)	(52 weeks)
Sales	**$9,112,265**	$8,086,794	$7,046,738
Operating income	**1,287,572**	1,155,809	1,068,343
Net income	**659,319**	591,025	602,944
Per common share amounts:			
Net income	**$ 1.75**	$ 1.59	$ 1.57
Dividends	**1.03½**	0.94	0.86
Book value	**7.34**	6.76	6.26
Capital expenditures	**$ 334,787**	$ 341,788	$ 275,052
Depreciation and amortization expense	**343,809**	315,267	259,809
Property, plant and equipment, net	**2,616,828**	2,534,376	2,167,727
Cash, cash equivalents and short-term investments	**$ 108,380**	$ 207,031	$ 142,404
Operating working capital	**1,305,359**	1,126,216	896,465
Total debt	**3,363,828**	3,401,076	2,166,703
Shareholders' equity	**2,706,757**	2,472,869	2,338,551
Average shares for earnings per share	**377,155,837**	372,806,306	385,218,024
Current ratio	**1.12**	1.10	1.35
Debt/invested capital	**55.4%**	57.9%	48.1%
Pretax return on average invested capital	**21.8%**	22.1%	22.7%
Return on average shareholders' equity	**25.5%**	24.6%	25.9%

Share and per share amounts have been restated to reflect the three-for-two common stock split, effective October 3, 1995. The 1994 results include a pretax gain of $127.0 million relating to the divestiture of the confectionery and specialty rice businesses.

Contents:


HEINZ
TOMATO KETCHUP

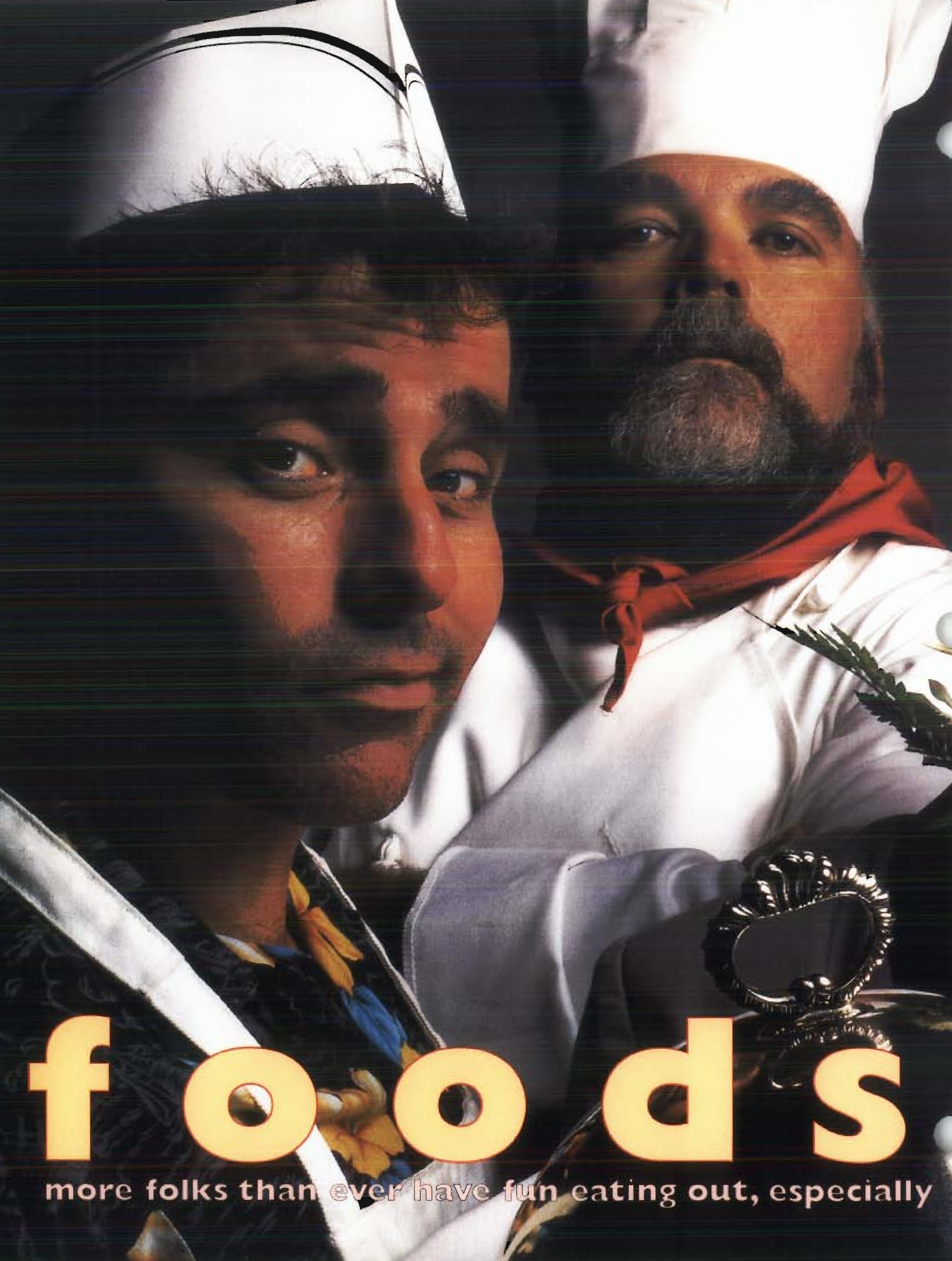
DEAR SHAREHOLDERS: I am pleased to report that H.J. Heinz Company achieved record earnings in Fiscal 1996. Global sales reached $9.1 billion for the year, more than $1 billion higher than the record set last year. Earnings per share progressed in kind, increasing 10% to $1.75 from $1.59. Operating income increased 11%, from $1.16 billion to $1.29 billion. ■ Heinz continues to be attractive to investors seeking consistent, double-digit earnings growth. Over the past two fiscal years, Heinz's stock price appreciated 52% during a period that saw a major secondary stock offering of nearly 21.8 million shares, a three-for-two stock split and two dividend increases. The total return over that period for Heinz shareholders who reinvested their dividends was 67%, or more than 29% compounded annually. ■ Looking ahead, Heinz has excellent growth opportunities in **six core categories** where we are driving for global leadership. **The first is foodservice**, our number-one business, where annual sales exceed $2 billion. Heinz is the largest prepared-food supplier to the U.S. foodservice market and we are number-one in single-serve items. Heinz U.S.A., Ore-Ida and Heinz Bakery Products are major players in the category. ■ Foodservice is growing at 6% in the United States and at a cracking double-digit pace in Europe and Asia. It is free of media expenditures and debilitating slotting allowances, while long-term supply contracts are common. ■ In the United States, nearly half of each food dollar is spent on foodservice. Spreading affluence and the growing need for convenient, affordable nutrition are creating unprecedented global demand for high-quality foodservice, which we satisfy through an international distribution and manufacturing network. As U.S.-based foodservice chains grow globally, we will be with them every step of the way. ■ **Our second category is infant foods.** This is an excellent branded business for Heinz and we have set a target of $1.4 billion in sales in three years. We are widening our geography and deepening our penetration in all segments of infant feeding, from formulas to junior meals and beyond. Heinz has years of experience in developing this category, which differs from others because of the concerns parents have for their babies. ■ We are number-one in Italy, the United Kingdom, Canada, Venezuela, Australia, New Zealand, Hungary, the Czech Republic and China. We are selling vigorously in Spain and Portugal and expanding in Eastern Europe, where we started full-scale production at our baby cereal plant in Russia. ■ In the United States, we have 18% of the market and acquired Earth's Best, the leading organic baby food brand. ■ In India, our purchase of Glaxo's Family Products Division has given us an excellent position through the top-

selling Farex brand of baby foods. ■ **Our third category, retail ketchup and condiments**, has long been synonymous with Heinz. Each year, Heinz produces approximately 600 million bottles of ketchup worldwide. More than half of all U.S. retail ketchup sales are Heinz. Heinz ketchup will be a billion-dollar global business in the coming year, with sales in more than 90 countries. It is a quintessential American icon, which this year celebrates 100 years as the nation's favorite condiment. As you might expect, ketchup is found in 97% of U.S. households and last year unit sales of ketchup to American homes and restaurants were, contrary to modern mythology, 40% greater than those of Mexican sauces like salsa, picante, taco and jalapeño. ■ The model for our low-cost operator philosophy is **pet food, Heinz's fourth category**. As a result of our acquisition of Quaker's North American Pet Foods division, we have the best-balanced pet food business in the United States. This gives us a broad skill set as we move overseas. Our recent acquisition of Alimentos Pilar in Argentina serves as an example of how we intend to proceed. At our flagship Bloomsburg, Pennsylvania plant, Heinz Pet Products continues to boost volume while reducing unit costs. In successfully integrating Quaker's pet food business, we exceeded our acquisition targets and increased the efficiency of our entire pet food operations. This year, we acquired Nature's Recipe, which will accelerate our expansion into the $2-billion specialty pet food channel. ■ **Our fifth category is tuna**, where we possess unequaled facilities for procurement and production in the Pacific, Atlantic and Indian Oceans to serve markets in Asia, Europe and the Americas. The worldwide tuna category is expected to exceed $6 billion by the year 2000. Our objective is to be tuna supplier to the world and to capture 25–30% of this market. Tuna is increasingly popular because it is low cost, high quality and protein rich. ■ **Heinz's sixth global opportunity is weight control**, a category where the Weight Watchers brand approaches $1 billion in sales. Our Weight Watchers brand is trusted around the world, setting attendance records for meetings in Australia, Scandinavia, and Brazil and scoring double-digit growth for frozen entrees in Canada. In the United Kingdom, our Weight Watchers from Heinz food brand is number-one, with twice the combined market share of competing Nestlé and Unilever products. Weight Watchers is well positioned in the United States, where three of every four adults are overweight. ■ The Budget Gourmet brand has added a powerful name to the Weight Watchers Gourmet Food Company. Significant savings are being realized through plant and organizational consolidation, as well as standardization of ingredients and packaging. ■ These six global categories are the focus of this report. You will note three significant points about these

categories. They are all very large; they are all growing globally; and, most importantly, they are all businesses in which Heinz enjoys leading brand positions and unique resources. ■ We should also note that 26 of our brands will, this year, record sales of $100 million or more. Five additional brands are on the $100-million threshold. ■ In summary, **our growth plan is clear and achievable**. We will continue to strengthen worldwide leadership and leverage in our six core categories. We will consolidate our acquisitions, relentlessly cut costs and attain higher standards in production efficiency. We will continue to grow overseas, with particular emphasis on emerging markets. ■ Following the close of Fiscal 1996, the senior management team saw several changes. Senior Vice President David W. Sculley left Heinz to launch an investment company with his brothers. During his 22-year Heinz career, David served with distinction. As an excellent marketer and global manager, he has been a key player in building this corporation during his tenure. I am grateful for his contributions. ■ I subsequently announced four key appointments. William R. Johnson is now the company's president and chief operating officer. Bill, formerly senior vice president, demonstrated outstanding leadership in making our tuna business the most profitable in the world. He expanded our fast-growing pet food unit and has gained valuable international experience overseeing operations in Asia/Pacific. ■ In addition, William C. Springer, David R. Williams and Luigi Ribolla now are executive vice presidents. Dave also serves as chief financial officer and Luigi as president of our European operations. Previously, all were senior vice presidents. ■ As I told security analysts last March, Heinz management possesses unique skills in marketing, operations and finance and in the mysterious art of making profits, and we are fortunate to be backed by the dedication of our 43,300 coworkers worldwide. Together, we are committed to achieving double-digit growth in Fiscal 1997 and to attaining and expanding world leadership in our six core categories.

Anthony J.F. O'Reilly

Chairman and Chief Executive Officer



foods

more folks than ever have fun eating out, especially


ervice
when they enjoy the taste of the 'hidden' Heinz

HEINZ CORE CATEGORIES: Playing to one's strengths is the name of the game in the international food business. During the 1990s, Heinz has focused its strategies on categories where it possesses unique opportunities and strengths. The company's goal is clear: world leadership in six core categories — foodservice, infant foods, ketchup & condiments, pet food, tuna and weight control.

FOODSERVICE. Consumers today have a voracious appetite for the convenience and pleasure of eating out. That is good news for Heinz, whose global foodservice business adds up to more than $2 billion, or a hefty 20% of total company sales. In fact, foodservice is now Heinz's number-one business. ■ Today, U.S. families spend almost 50¢ of every food dollar on meals outside the home, dramatically up from one-third in the 1970s. While foodservice continues to expand at 6% in the United States, it enjoys double-digit growth in Europe and Asia. ■ Heinz is America's largest supplier of prepared food to the foodservice market and number-one in single-serve varieties. Heinz offers a vast range of items — including ketchup, french fries, single-serve condiments, frozen soups, sauces, baked goods and tomato products — to away-from-home eating establishments. ■ In the United States, the commercial foodservice sector continues to expand about twice as fast as the retail sector. Heinz's foodservice volumes kept pace with the industry's overall growth rate last year, powered in large part by fast-food chain "value meals," which offer a sandwich, fries and drink for less than $3. Today, Heinz ketchup is found in four out of five U.S. restaurants, increasingly in single-serve packets. In Fiscal 1996 alone, it sold a whopping 11.4 billion portion-control packets. Today, Heinz U.S.A.'s portion-control line is the largest component of its foodservice portfolio. ■ Further propelling foodservice growth are Heinz's "signature" recipes, such as steak and pizza sauces for restaurant chains. These specialty lines have expanded 18% during the last few years, and so have Heinz's niche businesses. They include the Escalon line of Italian tomato products and the Chef Francisco brand of frozen soups. ■ Ore-Ida is now the fastest-growing brand in the foodservice potato market, a market seven times larger than its retail counterpart. The volume for Ore-Ida's foodservice french fries increased more than 50% in the last two years. Among Ore-Ida's other powerhouse brands are Moore's frozen onion rings and Domani frozen pasta.

They are complemented by the Omstead line of frozen appetizers and coated lake fish and vegetables. ■ Heinz Bakery Products is also a major supplier of rolls and bagels to Subway, Dunkin' Donuts and other national chains, including Little Caesar's. ■ With the market for foodservice expected to grow at least twice as fast outside the United States over the next decade, Heinz is stepping up its global investment and leveraging its brand strength through growing foodservice channels in Europe, Japan, Canada, New Zealand, South Africa and other regions of the world. ■ European foodservice, for example, is now a $170-billion market. Heinz's share of that market is rapidly increasing. Sales are up 75% since 1994, when Heinz established its first European foodservice unit. Niche acquisitions have included Britwest, which specializes in single-serve condiments and sauces for British and French markets, and Arimpex, Dega and Bevidea, a trio of Italian foodservice distributors.

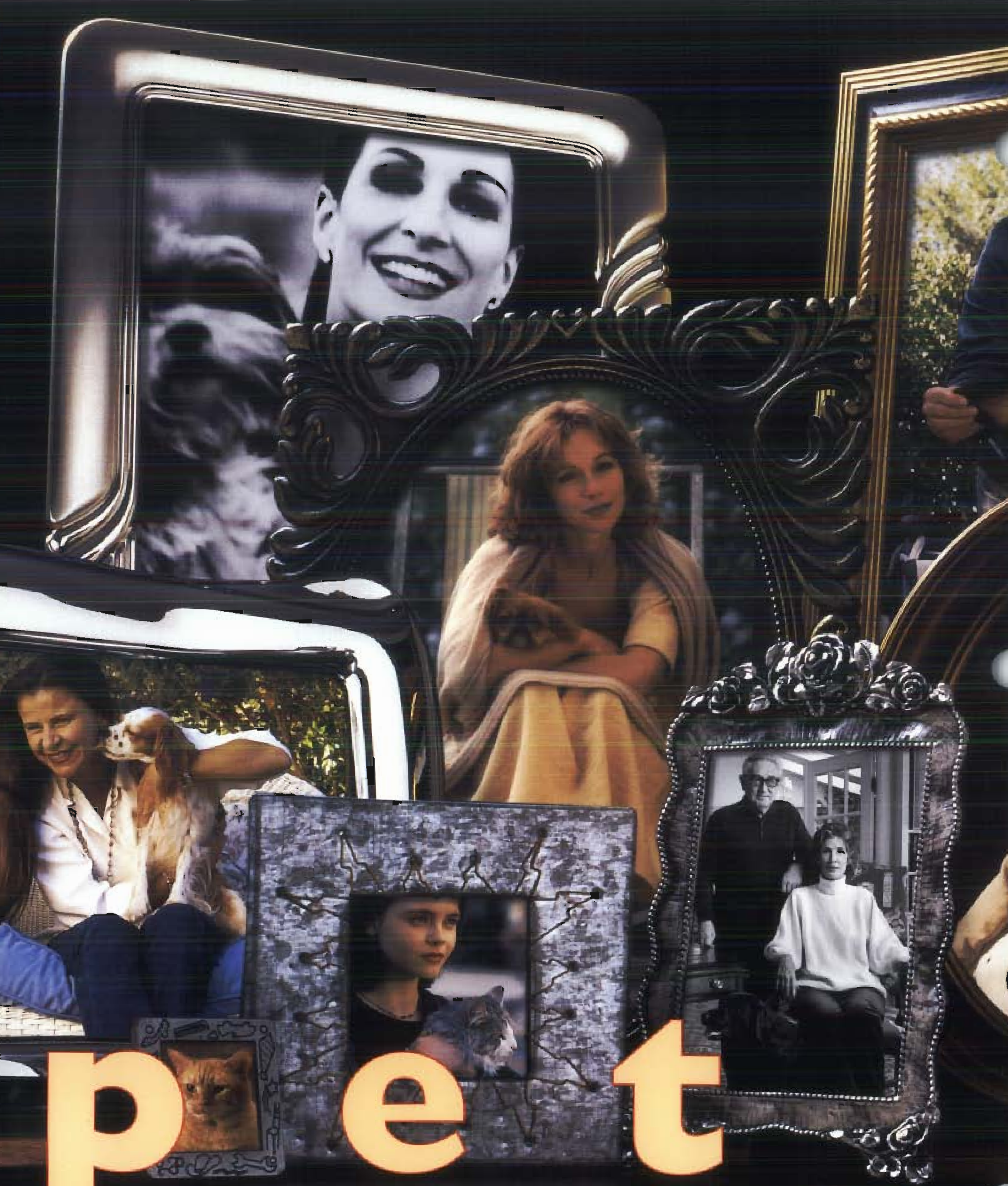
INFANT FOODS. For mothers from Seattle to Stavropol, the key ingredients in infant foods are confidence and trust. Heinz, which has been providing those ingredients for 65 years, understands these special concerns. In fact, since the 1970s it has been at the forefront of infant nutrition research and education around the world. ■ Infant foods are a $900-million business for Heinz, up from $600 million in two years. Heinz infant foods enjoy strong franchises in North America, Europe and Asia/Pacific. ■ In China and Eastern Europe, the Heinz Institute of Nutritional Sciences sponsors local studies and symposia to improve the nutritional well-being of mothers and their babies. ■ With rising standards of living and high birth rates in many developing markets, Heinz looks forward to sales of $1.4 billion in three years. ■ Heinz sells more than 86% of its baby food outside the United States through trusted brands, such as Plasmon, Dieterba, Nipiol, Wattie's, KK, Sunar, Farley's and Heinz. Market shares are impressive: 90% in Italy; 93% in Canada; 50% in Australia; 35% in the United Kingdom; and 18% in the United States, where Heinz sales are well over $100 million. ■ In the United Kingdom, the 1994 Farley's acquisition doubled Heinz's infant foods business and expanded it to a full range of items for babies from birth through 12 months. Heinz and Farley's now lead the total U.K. infant

infant

parents everywhere want only the best for their

foods

children, so they put their trust in Heinz brands



pet

pets are just like family to millions all over

Tracey Ullman with Eloise

Morris the 9-Lives Cat

Anjelica Huston with Minnie

Christina Ricci with Elvis

Jennifer Grey with Lulu

Henry and Nancy Kissinger with Amelia

f o o d

the world, making pet food a dynamic category

Ed McMahon with Millie

Michael Damian with Remy

Patrick Stewart with Sausage

John Larroquette with Bella and Max

Valeria Golino with Bebop

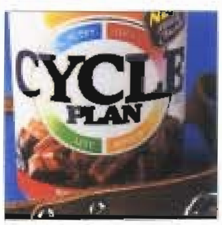
foods market and are building an infant-to-child bridge with a range of canned Kids Meals. ■ The acquisition of Earth's Best, the leading organic baby food company in the United States, opens the door for Heinz to a growing, value-added niche market. The Earth's Best range of 46 premium organic baby foods complements Heinz U.S.A.'s nutritious products. In addition, Earth's Best is exported to Australia, Japan, Canada and the Middle East. Similarly, the Italian acquisition of Fattoria Scaldasole has added a line of organic yogurts. ■ In Eastern Europe, Heinz is stringing together a network of plants and products. Cereals, for example, are sourced from Russia, jarred strained foods from Hungary, and infant formula from the Czech Republic. Through this network, Heinz is building full lines of baby foods marketed under strong, local brands. Total annual sales in this region are well on their way to $100 million.

KETCHUP AND CONDIMENTS. Heinz ketchup, 120 years young, continues to pour on the profits and to challenge conventional wisdom about the life cycle of so-called "mature" brands. The company sells nine billion ounces of ketchup around the world. That's nearly $1 billion a year. In the United States, about half of all retail ketchup sales

are Heinz. ■ Last year, Heinz U.S.A. increased its profitability on retail ketchup alone by $20 million. It did so by lowering manufacturing costs, by working closely with U.S. supermarkets, and by introducing more overseas consumers to ketchup's unique flavor.

■ Today, like Coca-Cola, McDonald's and other American favorites, Heinz ketchup is a global classic. As a billboard for Heinz ketchup in Moscow proclaims: "The whole world knows it." ■ Heinz U.K., the company's European grocery leader, continues to reap the rewards of creative marketing programs, especially its direct-mail *Heinz at Home* magazine. Some 2.5 million consumers received the publication, filled out detailed questionnaires and redeemed its coupons at the high rate of 16% (versus a U.K. industry average of 9%). This produced the highest market share for ketchup in the United Kingdom since 1990. At the same time, ketchup shares are up in Belgium, Germany, Denmark and France. Heinz's European ketchup business is amply supplied by tomato-paste production facilities in Portugal and Greece. ■ Prospects for future growth in ketchup and condiments continue to be bright. In particular, as U.S. fast-food chains grow in popularity around the globe, Heinz

ketchup and condiments will become ubiquitous. ■ In the United States, condiments grew because of stronger merchandising support and special events. Notably, Heinz Barbecue Sauce expanded to several new markets, and unit sales are up. Both the HomeStyle and Fat Free Gravy lines witnessed their strongest winter season. ■ Another successful marketing strategy — updating labels with contemporary graphics — contributed to a resurgence of Heinz 57 Steak Sauce, as well as Chili and Cocktail Sauces. Also, Heinz released limited-edition 40-ounce plastic ketchup bottles, complete with cartoon labels designed to appeal to children. A nationwide competition is underway, inviting students to submit designs for ketchup labels for use in 1997. ■ Retail ketchup and condiments remain a key category for Heinz and account for 7% of the company's global sales.

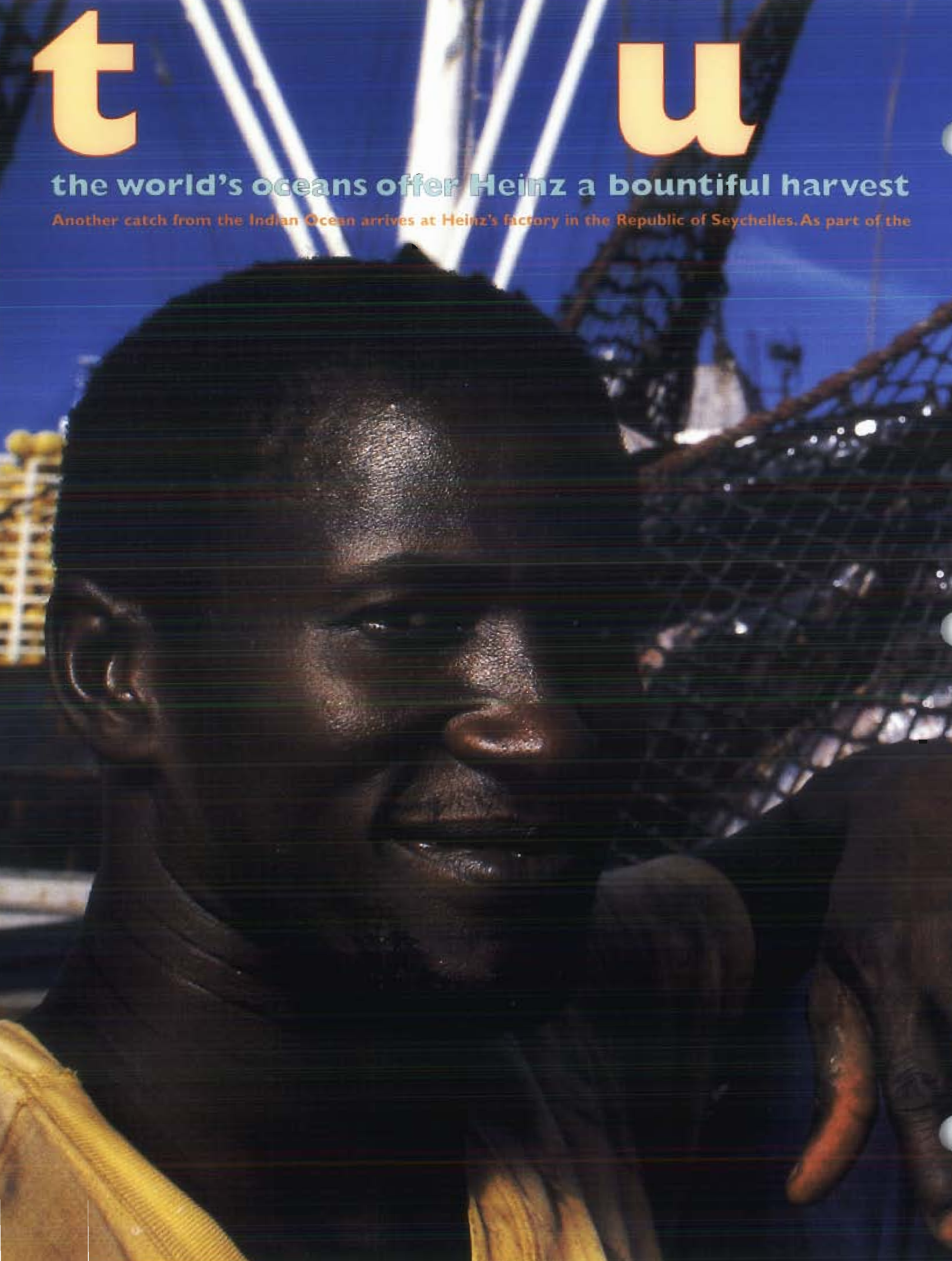


PET FOOD. Pet owners worldwide dish out $20 billion a year for pet food. Nearly half of that enormous sum is spent in the United States, where pet food is a rapidly growing business and the premium end of the market alone is increasing at more than 20% a year. Premium brands are estimated to become fully half of the category by the year 2000. ■ In Fiscal 1996, Heinz Pet Products (HPP) paid $725 million for Quaker's North American Pet Foods division, doubling its sales and making it the joint number-two company in the U.S. pet food business. ■ The acquisition, the largest in Heinz's history, is already a home run. HPP has driven down costs and raised productivity to become the low-cost operator. Its Bloomsburg, Pennsylvania facility, after an investment of close to $70 million, is the most modern and cost-efficient in the world. ■ In Fiscal 1996, Heinz Pet Products generated sales of over $1 billion, more than 10% of total company revenues. ■ Today, HPP holds the best-balanced product portfolio in the U.S. It manufactures a full array of pet foods and treats, sold in every channel, ranging from supermarkets and specialty pet stores to veterinary clinics. And with Veterinary Centers of America, it markets Vet's Choice, a premium line. The company's brands include some of the best-known names: 9-Lives, Reward, Cycle, Kibbles'n Bits, Gravy Train, Ken-L Ration, Meaty Bone, Jerky Treats and Snausages. ■ This year, HPP took a stronger position in higher-growth, higher-margin segments. It sold two regional dry pet food product lines while acquiring Nature's Recipe. The fourth-largest specialty brand in America, Nature's

t u

the world's oceans offer Heinz a bountiful harvest

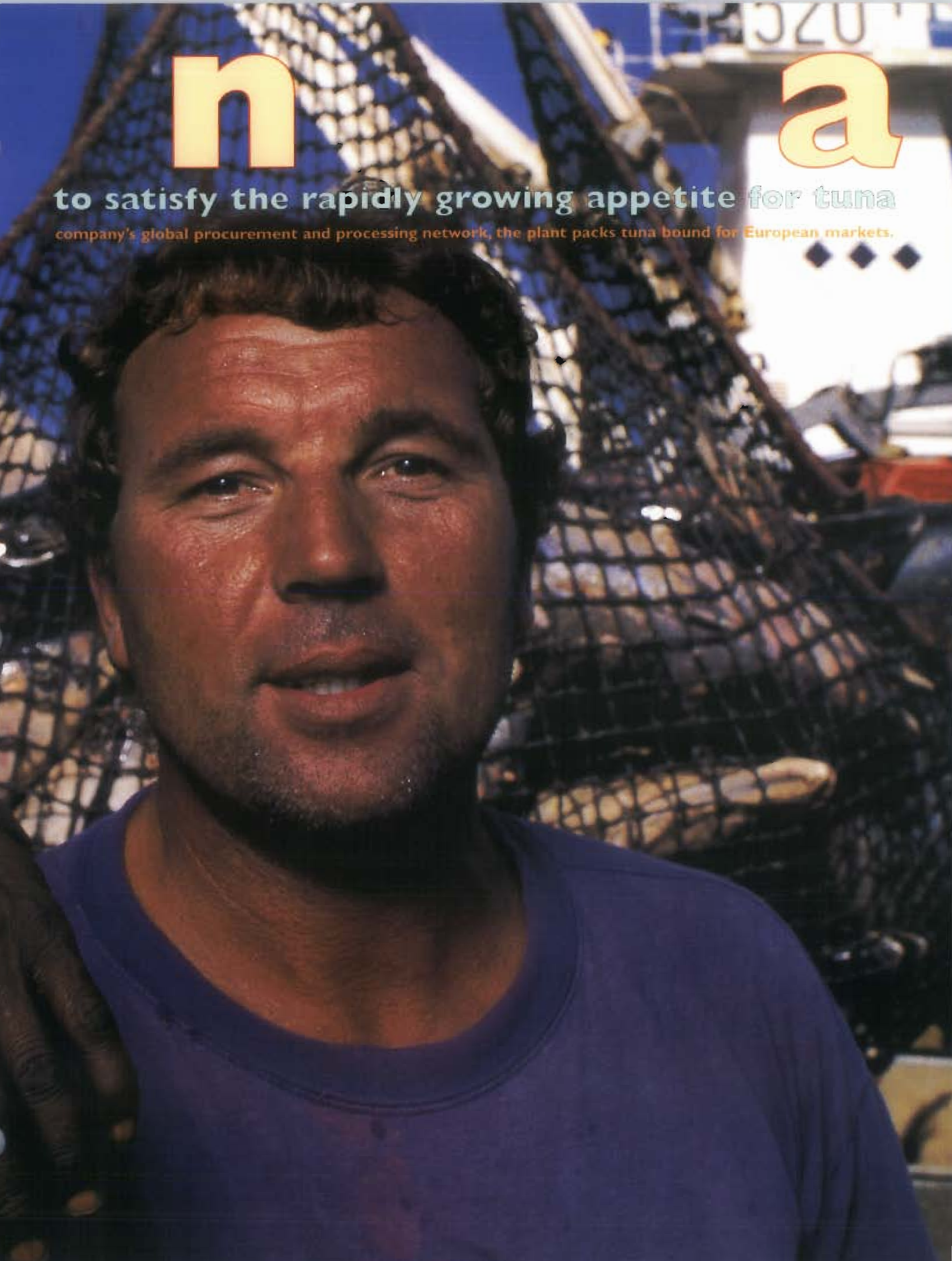
Another catch from the Indian Ocean arrives at Heinz's factory in the Republic of Seychelles. As part of the

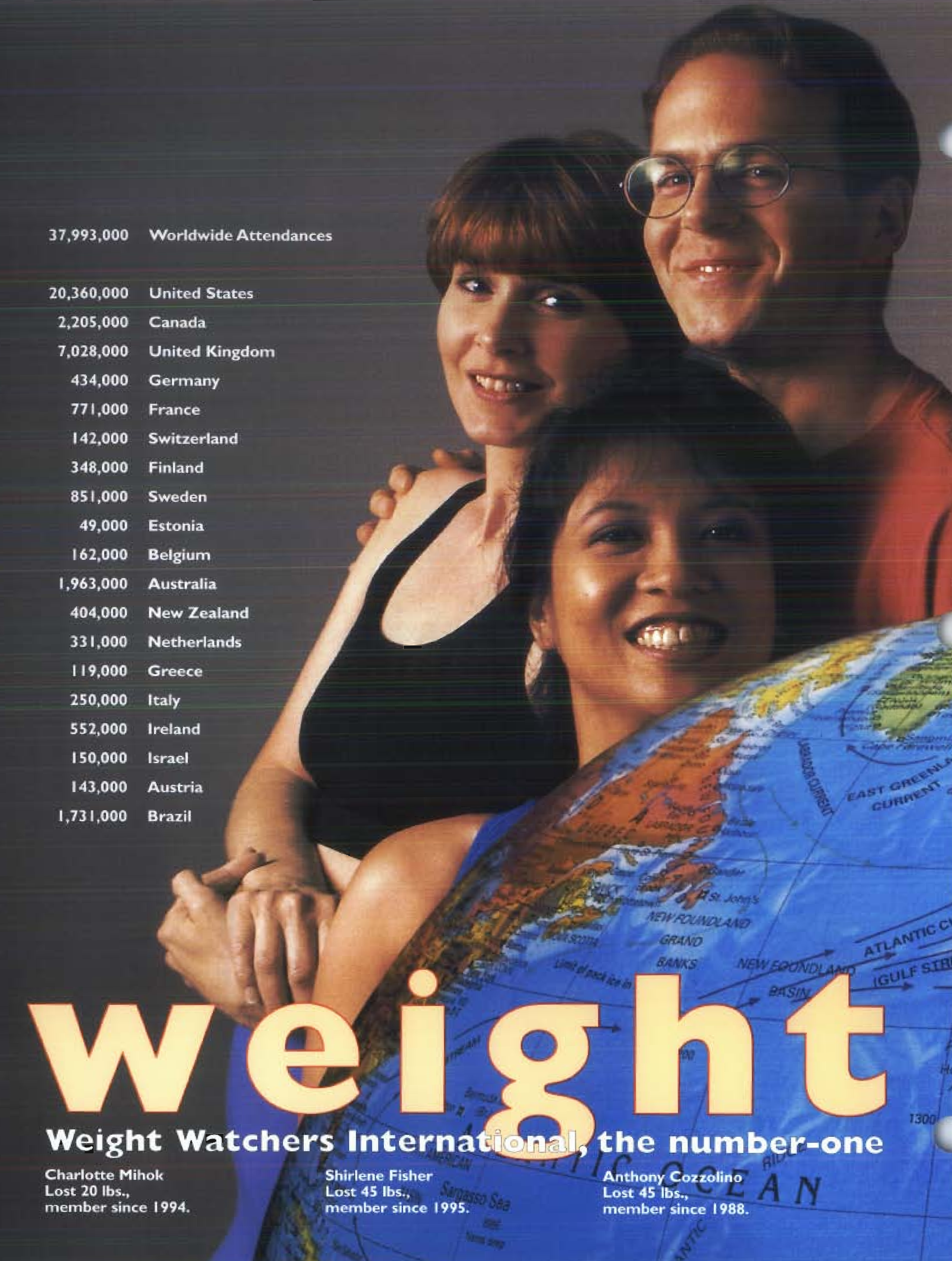


n a

to satisfy the rapidly growing appetite for tuna

company's global procurement and processing network, the plant packs tuna bound for European markets.





37,993,000	Worldwide Attendances
20,360,000	United States
2,205,000	Canada
7,028,000	United Kingdom
434,000	Germany
771,000	France
142,000	Switzerland
348,000	Finland
851,000	Sweden
49,000	Estonia
162,000	Belgium
1,963,000	Australia
404,000	New Zealand
331,000	Netherlands
119,000	Greece
250,000	Italy
552,000	Ireland
150,000	Israel
143,000	Austria
1,731,000	Brazil

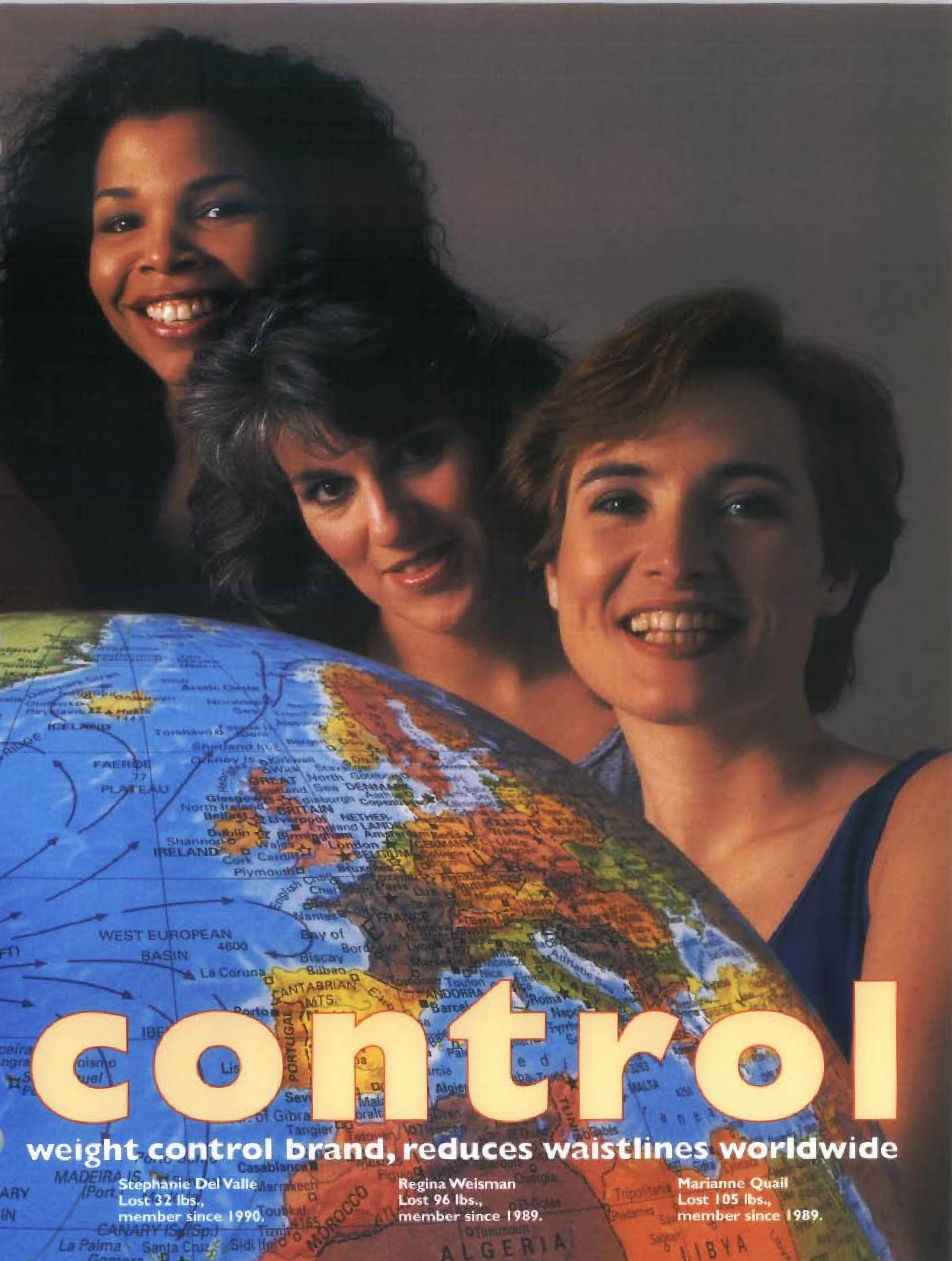
weight

Weight Watchers International, the number-one

Charlotte Mihok
Lost 20 lbs.,
member since 1994.

Shirlene Fisher
Lost 45 lbs.,
member since 1995.

Anthony Cozzolino
Lost 45 lbs.,
member since 1988.



control
weight control brand, reduces waistlines worldwide
Stephanie Del Valle
Lost 32 lbs.,
member since 1990.
Regina Weisman
Lost 96 lbs.,
member since 1989.
Marianne Quail
Lost 105 lbs.,
member since 1989.

Recipe is sold primarily through pet shops and pet superstores. ■ Looking ahead, HPP is ready to expand its geographic reach. Heinz already owns BestFriend pet food, the market leader in New Zealand. And this year it acquired a majority stake in an Argentine pet food producer, Alimentos Pilar. The pet food market there is growing annually at 15%. Alimentos Pilar also exports its cat and dog foods to neighboring Chile, Uruguay and southern Brazil.

TUNA. Tuna's universal appeal as a high-quality, low-cost, low-fat, shelf-stable source of protein is a key reason the tuna business grows around the world at an annual compound rate of 6%. Heinz accounts for 20% of global branded tuna sales and is the world's largest purchaser of tuna. The vision is to become tuna supplier to the world, attaining 25–30% of what will be a $6-billion market by the year 2000. ■ StarKist's unmatched assets include: a procurement network stretching from the Pacific to the Atlantic and Indian Oceans; a string of strategically located canneries in American Samoa, Ecuador, Puerto Rico, Ghana, Portugal, France, the Seychelles and Australia; consumer markets in Asia/Pacific, Europe and the Americas; and powerful brands — StarKist, Petit Navire, Greenseas, Wattie's, Heinz and Mareblu. ■ In the United States, which accounts for nearly one-third of the world's tuna consumption, StarKist is the leading brand. The market share of its top-selling chunk light brand has risen dramatically to a record of nearly 50%, with total tuna sales approaching $700 million. (Unit volume grew 25% in two years and operating income an impressive 57%.) ■ Growth initiatives included higher-margin, value-added products (such as Charlie's Lunch Kit and Ready-Mixed Tuna Salad). Also, Charlie the Tuna returned to TV, sporting a high-energy, contemporary image. ■ Europe is now the largest market for tuna and growing more than 9% annually. Petit Navire, in France, enjoys a 20% market share. Italy accounts for 25% of all European tuna sales. There, Heinz acquired the Mareblu brand, which will be packed at the company's cannery in the Seychelles. ■ In Australia, Heinz's Greenseas brand holds 30% of the market. Sales for Greenseas, which is marketed throughout the Asia/Pacific region, grew 24% in the past two years.

WEIGHT CONTROL. As waistlines continue to expand around the world, the fortunes of the world's premier weight-control company, Weight Watchers International, are also expected to grow. Having anticipated weight-gain trends in rapidly developing markets, Weight Watchers moved into the former East Germany and into Estonia. It is also expanding rapidly in Brazil. Today, Weight Watchers operates in more than 20 countries and is, by far, the world's number-one weight-control brand. Attendance outside the United States represents 46% of the business. The Weight Watchers brand has annual food and service revenues approaching $1 billion worldwide. ■ In the United Kingdom, products sold under the Weight Watchers from Heinz brand enjoy enormous success. In fact, Weight Watchers now leads its segment of the frozen food market in the United Kingdom, France and Sweden. ■ In the United States, Weight Watchers has emerged from the industry-wide shake-out with a stronger market position. Weight Watchers At Work meetings continue to grow in popularity. Meetings at Ford Motor Company, for example, take place in 50 Ford plants, with 95 weekly meetings attended by more than 1,500 people. ■ Nevertheless, the worst winter weather of the century contributed to a decline in the January–March diet season. In the spring, Weight Watchers responded aggressively with its biggest program change in 30 years: "The 5 Day Plan–Weekends Are Free." The result has been an immediate uplift in overall attendances. ■ At the same time, Weight Watchers Gourmet Food Company restaged its entire frozen food line, introducing new packaging, new advertising and a new line of International Selections entrees. ■ The 1994 acquisition of The Budget Gourmet line moves Weight Watchers Gourmet Food Company into a strong number-two position in its category. The acquisition also provides opportunities to reduce the number of factories from four to two.

OTHER LEADING BRANDS. Heinz's other leading brands are retail frozen potatoes, frozen snacks and pasta in the United States; beans, pasta and soup in the United Kingdom; oils in Zimbabwe; and poultry in New Zealand. Collectively, they represent 28% of Heinz's worldwide sales. Individually, they are exceedingly successful. ■ Ore-


HEINZ
TOMATO
KETCHUP
TOMATO TORNADO

TOMATO TORNADO: No one processes more tomatoes than Heinz, nor does it with such delicious effect in ketchup, soups and sauces to suit a world of tastes. ■ We pay homage to our condiment keystone in "Tomato Tornado," a poster from the fertile imagination of renowned contemporary graphic designer Milton Glaser. ■ For additional copies of this poster, call (412) 456-6000.


HEINZ
Heinz

Ida, which last year became a $1-billion business (including retail, foodservice and specialty foods), continues to diversify and grow both volume and profits. Among its growth engines are Bagel Bites pizza-topped snacks, Rosetto brand pasta, and retail frozen potatoes. ■ Supported by humorous advertising, the Bagel Bites line contin-

ues its explosive double-digit growth in the "snack zone" of the supermarket freezer case. Bagel Bites will soon be a $100-million brand. ■ Rosetto, number-one in the frozen prepared pasta market, enjoys a 32% market share. Retail frozen potatoes remain a "hot" category, with Ore-Ida's market share hitting 49%. ■ Heinz U.K.'s performance was outstanding because of a new advertising strategy that shifted the emphasis from individual products to the overall brand. The campaign was coupled with a creative and well-targeted direct-marketing effort. Overall, Heinz brand equity in the United Kingdom is exceedingly high and volume is up for soups and the ever-popular Heinz baked beans. In fact, 41% of the participants in a U.K. survey said they would pay a premium for Heinz products. ■ Southern Africa represents a potential market of 112 million people. In Zimbabwe, Heinz has built the country's largest food company. It produces, for local consumption as well as for export throughout sub-Saharan Africa, a wide range of cooking oils, margarines, soaps, beans, vegetables, soups and ketchup. ■ In South Africa, Heinz invested in a joint venture, called Heinz Frozen Foods, to produce french fries for the grocery and foodservice markets. Heinz expects to have a $250-million business in southern Africa within five years. ■ Heinz continues to extend its reach in the Pacific Rim, where sales exceed $1 billion (12% of Heinz's annual revenue). In Asia/Pacific, the world's fastest-growing consumer market, Wattie's is the largest supplier to New Zealand grocers and enjoys a growing export trade to Australia and Japan. Among Wattie's "power brands" are Tegel poultry, Tip Top ice cream, Wattie's Frozen Foods and BestFriend pet foods. ■ Heinz further extended its reach in the region by acquiring Southern Country Foods in Australia. The new unit is a leader in canned corned beef and meals

Acquisitions and Divestitures: Heinz continued to expand through strategic acquisitions during Fiscal 1996. In foodservice, the company purchased Britwest Ltd. to enlarge its fast-growing European operations. A maker of single-serve condiments and sauces, Britwest operates a leading British foodservice supplier and sells single-serve products in France. In New Zealand, Wattie's acquired the Craig's brand of jams and dressings for the foodservice trade. ■ The company's infant foods business entered a new market through the purchase of Earth's Best, Inc., America's leading marketer of organic baby foods. In Italy, Heinz acquired Fattoria Scaldasole, which processes organic yogurts, milk and juices. Heinz built up its Eastern European presence by acquiring a majority interest in PMV/Zabreh, the Czech Republic's top producer of formulas and dairy products. Heinz also increased to 97% its investment in Kecskeméti Konzervgyár, the Hungarian maker of baby foods and juices. ■ In the tuna category, Heinz expanded its operations to the Seychelles by forming Indian Ocean Tuna Limited and acquiring a cannery to supply the European market. Heinz added to its Italian canned tuna business by buying the Mareblu brand. Pet food acquisitions included Nature's Recipe, an all-natural specialty brand in the United States, and Alimentos Pilar, a leading Argentine maker of pet food and animal feed. In addition, Heinz established itself in South Africa through a joint venture called Heinz Frozen Foods (Pty) Ltd. ■ Divestitures included a small domestic bulk oil unit, an overseas sweetener business, *Weight Watchers Magazine* and two regional dry pet food product lines.

Sales and Marketing: Heinz scored sales records in Fiscal 1996, reaching $9.1 billion, or 13% more than the previous year. The company's sales remained geographically diverse, with 43% coming from outside the United States. Heinz invested substantially in marketing support, spending $2 billion to back its global brands. Whatever the market, Heinz employed a flexible strategy, combining advertising, direct marketing, public relations, trade promotions and allowances. ■ After a 12-year hiatus, Charlie the Tuna returned to TV ads in selected markets. Morris the 9-Lives Cat took to the airwaves to introduce 9-Lives Plus cat food. Heinz U.K. launched an inventive series of 10-second TV spots featuring Britons from all walks of life enjoying Heinz products. Ore-Ida used a focused and cost-efficient media strategy, promoting its Bagel Bites pizza-topped snacks and Rosetto frozen pasta on U.S. cable channels. ■ Heinz's big brands turned in powerful perfor-

mances. The retail market share for Heinz ketchup approached 50%. StarKist tuna kept its lead with nearly a 46% share. Ore-Ida frozen potatoes grew to 49%, 9-Lives canned cat food expanded to 27%, and baby food in the United States grew to 18%. Although Weight Watchers meetings suffered from winter storms in the United States, attendances continued to grow in the United Kingdom, Australia, Scandinavia and Brazil. Global foodservice sales continued to grow, exceeding $2 billion.

Facilities and Procurement: In North America, Escalon Packers completed a $5-million renovation of its California tomato-processing facility. Weight Watchers Gourmet Food Company opened its new headquarters and R&D facility in Connecticut. Portion Pac is building a plant in Florida to help satisfy demand for single-serve condiments. Heinz Bakery Products rebuilt and expanded its factory in Vinita, Oklahoma. Heinz Canada restructured and modernized its Leamington plant. ■ A $20-million baby food factory opened in Russia's Stavropol region. In New Zealand, Wattie's launched a $7-million poultry plant to supply Tegel brand chicken to retail and foodservice customers along the Pacific Rim. Heinz India installed equipment to increase output of its Complan nutritional drinks and Farex baby foods. ■ Heinz's diverse supply network enabled it to compensate for extreme weather patterns, such as drought in the American southwest and heavy rains in the midwest. Heinz developed a tomato hybrid with higher resistance to crop disease, enabling it to further reduce pesticide use.

Public Service: Heinz continued to fulfill the responsibilities of global citizenship. The H.J. Heinz Company Foundation led the way, giving $5.6 million to approximately 900 organizations and matching, two-for-one, contributions by 660 employees. ■ Heinz U.S.A. once more raised thousands of dollars for children's hospitals through its baby food label-saving program. Heinz Pet Products expanded the Homeless Homer label program, which benefits homeless pets. Ore-Ida teamed up with Archie Comics to donate to United Cerebral Palsy proceeds from specially marked packages of Ore-Ida Tater Tots frozen potatoes. Weight Watchers aided the British Heart Foundation through product sales and meeting activities. ■ The Heinz Institute of Nutritional Sciences conducted programs for physicians, government health officials and consumers in the United States, Canada, Australia, China, Thailand, Hungary, Poland and Russia. In Italy, Heinz again hosted its perennial seminars for young pediatricians from Italy and Spain.

H.J. Heinz Company achieved record sales and earnings for 1996. Sales increased 13% to over $9.11 billion and earnings per share increased 10% to $1.75 per share.

Financial results for 1996 benefited from improved sales volumes and prices in both domestic and overseas markets. The record $1.18 billion invested in acquisitions in 1995 has strengthened the company's core product categories and expanded growth prospects in emerging markets around the world.

During 1996, the company continued to reposition its portfolio of businesses through strategic acquisitions and divestitures. Over the course of the last two fiscal years (1995 and 1996), the company has made the following acquisitions: in pet food—the North American pet food business of The Quaker Oats Company (the "Pet Food Business"), Nature's Recipe Pet Food product line, and Alimentos Pilar S.A. of Argentina; in weight control—The All American Gourmet Company, maker of The Budget Gourmet brand of frozen meals and side dishes; in tuna—a majority interest in Indian Ocean Tuna Ltd., located in the Seychelles, and the Mareblu brand in Italy; in infant foods—a majority interest in PMV/Zabreh in the Czech Republic, an additional investment in Kecskeméti Konzervgyár RT in Hungary, the Family Products Division of Glaxo India, Ltd., the Farley's infant foods and adult nutrition business, Fattoria Scaldasole S.p.A. in Italy, and Earth's Best, Inc., a leading marketer of organic infant foods in the U.S.; and in foodservice—Borden's foodservice group in the U.S., Britwest Ltd. in the United Kingdom, the Craig's brand of jams and dressings in New Zealand, and Dega, a foodservice company in Italy. Divestitures of non-strategic businesses include: a domestic bulk oil business, an overseas sweetener business, the *Weight Watchers Magazine* and two regional dry pet food product lines. Acquisitions and divestitures affect year-to-year comparisons of both sales and operating income.

Continued implementation of cost reduction and productivity enhancements has also added to the strong 1996 financial performance.

On September 12, 1995, the Board of Directors authorized a three-for-two common stock split, effective October 3, 1995. There was no adjustment in the par value or the total number of authorized common shares. All common share and per common share data in this report reflect the October 3, 1995 three-for-two common stock split.

RESULTS OF OPERATIONS

1996 versus 1995: Sales for 1996 increased $1.03 billion, or 13%, to $9.11 billion from $8.09 billion in 1995. The increase was primarily due to acquisitions (net of divestitures) as well as volume and price. Domestic operations contributed approximately 57% of consolidated sales in each year. Fiscal 1996 comprised 52 weeks compared to 53 weeks in 1995.

Acquisitions (net of divestitures) contributed $617.3 million, or 8%, to the sales increase. Fiscal 1995 acquisitions impacting the year-to-year sales dollar comparison included: the Pet Food Business; The All American Gourmet Company; Farley's; and the Family Products Division of Glaxo India, Ltd. Sales also benefited from the following Fiscal 1996 acquisitions: PMV/Zabreh; Kecskeméti Konzervgyár RT; Britwest Ltd.; Fattoria Scaldasole S.p.A.; Craig's; Indian Ocean Tuna Ltd.; Earth's Best, Inc.; and Nature's Recipe. Divestitures impacting the sales comparison include a domestic bulk oil business and an overseas sweetener business.

Volume increased $313.5 million, or 4%, in 1996. Foreign volume increases occurred in seafood, pasta, Heinz beans, sauces/pastes and infant foods. Domestic volume increased in StarKist tuna, Ore-Ida foodservice frozen potatoes, pasta, coated products, Bagel Bites and Heinz ketchup

offset by decreases in Weight Watchers brand dairy products and single-serve condiments.

Prices increased $85.8 million, or 1%, in 1996. Overseas, prices increased in infant foods, Heinz beans and edible oil. Domestic price increases occurred in Heinz ketchup, single-serve condiments and Ore-Ida retail frozen potatoes while decreases occurred in StarKist tuna, frozen entrees (including weight control) and pet food.

The strengthening of overseas currencies, particularly in New Zealand and Western Europe, against the U.S. dollar increased sales $60.4 million, or less than one percent.

Gross profit increased $369.7 million to $3.34 billion from $2.97 billion a year ago. The ratio of gross profit to sales decreased slightly to 36.6% from 36.7%. The current year's gross profit ratio was impacted by repositioning the business portfolio through acquisitions and divestitures, cost reductions, profit mix and the effect of increased goodwill amortization associated with recent acquisitions. In the fourth quarter, gross profit was also impacted by gains relating to the sale of the *Weight Watchers Magazine* and the sale of two regional dry pet food product lines. (See Note 12 to the Consolidated Financial Statements.) The gains were offset in the fourth quarter in selling, general and administrative expense by restructuring charges at certain overseas affiliates and an increase in marketing expense of $27.5 million, or 12%.

Selling, general and administrative (SG&A) expenses increased $237.9 million to $2.05 billion from $1.81 billion and increased slightly as a percentage of sales to 22.5% from 22.4%. As a percentage of sales, increased general and administrative expenses (due mainly to acquisitions) and increased marketing expenses were offset by lower selling and distribution expenses.

Total marketing support (including trade and consumer promotions and media) increased 15% to $1.97 billion on a sales increase of 13%.

Operating income increased $131.8 million, or 11%, to $1.29 billion from $1.16 billion for last year. The increase in operating income was primarily due to the increase in gross profit, partially offset by increased marketing expenses; higher selling and distribution expenses related to increased volume; and higher general and administrative expenses associated with acquisitions. Domestic operations provided approximately 57% of operating income in both 1996 and 1995.

Attendance at the Weight Watchers meeting business in the U.S. was adversely affected by the severe winter weather and an industry-wide decrease in attendance. Although the entire domestic weight-loss industry continues to show weakness, the Weight Watchers meetings market share exceeds 50%. As a result of an improved cost structure and an established infrastructure, Weight Watchers meeting operations are well positioned to grow profitably if the percentage of dieters using weight-loss services increases. A new spring marketing program was launched early in the U.S. and has shown an increase in attendance compared to the poor winter diet season. Weight Watchers attendance was up in Australia, Scandinavia and Brazil.

Frozen entree volume (including weight control) was flat in a very competitive marketplace, where downward pricing pressures in the U.S. affected profitability. The company anticipates additional operating efficiencies related to the further integration of The Budget Gourmet product lines in 1997. In addition, price increases are beginning to be realized in early Fiscal 1997.

Heinz U.K.'s results improved significantly over the prior year, primarily as a result of improved sales volumes and prices.

The company's New Zealand affiliate, Wattie's Ltd., experienced operational difficulties as new poultry production facilities were brought on-line during 1996. Poor poultry market conditions also impacted the New Zealand operations, as well as higher commodity prices in the frozen food business and more competitive markets in the frozen food and ice cream businesses. Improved results are expected in 1997, particularly in the poultry business.

The company continues to invest in Eastern Europe. In general, the Eastern European operations have progressed, but have not yet contributed margins comparable to the company's traditional product lines.

As expected, cost synergies resulting from the combination of recently acquired businesses with existing company operations have been realized in the current year. In connection with

the acquisition of the Pet Food Business, the closure of the cannery at the Topeka, Kansas factory (dedicating that facility to the production of dry pet food) and the combination of selling, distribution and administrative functions with existing company operations have produced efficiencies that have met or exceeded expectations.

Also during the year, the Weight Watchers Gourmet Food Company announced the closure of The All American Gourmet plant in Atlanta, Georgia, where operations were phased out in January. Production has been consolidated with other company facilities. Further synergies are anticipated as the manufacturing operations related to this and other acquisitions continue to be integrated.

Non-operating expenses totaled $263.9 million in 1996 compared to $217.8 million in 1995. Net interest expense increased 34% to $232.6 million from $174.0 million, due mainly to higher average borrowings resulting from prior-year acquisitions and from repurchases of company stock under the stock repurchase program.

The effective tax rate was 35.6% in 1996 and 37.0% in 1995. The current-year tax rate was favorably affected by the recognition of operating losses overseas and higher profits from operations in lower tax jurisdictions. A full-year tax rate of approximately 38.0% is more indicative of expected future tax rates. (See Notes 4 and 12 to the Consolidated Financial Statements.)

Net income increased $68.3 million, or 12%, to $659.3 million from $591.0 million in the prior year. Earnings per share increased to $1.75 from $1.59. The average number of shares used for the calculation of earnings per share increased to 377.2 million from 372.8 million due mainly to increased shares outstanding resulting from stock options exercised and higher common stock equivalents due to a higher average share price. The increase in the average number of shares caused current-year earnings per share to decrease $0.02 per share.

The impact of fluctuating exchange rates for 1996 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

1995 versus 1994: Sales for 1995 increased $1.04 billion, or 15%, to $8.09 billion from $7.05 billion in 1994. Volume growth, acquisitions and the effect of a weaker U.S. dollar against most foreign currencies contributed to the sales increase. Overall, prices remained stable. Fiscal 1995 comprised 53 weeks compared to 52 weeks in 1994.

Volume increased $436.3 million, or 6%, in 1995, approximately two-thirds of which came from domestic sources. In the U.S., increases occurred in Ore-Ida frozen potatoes, StarKist tuna, coated products, Bagel Bites, Heinz ketchup, pasta and pet food. Overseas, most core product categories exhibited strong growth, except for Heinz soups and beans in the United Kingdom. The overseas core product growth was driven by infant foods and sauces/pastes.

Acquisitions increased sales $488.1 million, or 7%. Acquisitions included: the Pet Food Business; The All American Gourmet Company, maker of The Budget Gourmet brand of frozen meals and side dishes; the Family Products Division of Glaxo India, Ltd., which produces a wide range of nutritional drinks, baby food and other consumer products; Farley's infant foods and adult nutrition business from The Boots Company PLC; the Borden Foodservice Group, a unit of Borden, Inc.; Dega, a foodservice products company located in Italy; and other small acquisitions.

Overall, prices remained relatively stable, increasing by $10.6 million in 1995, with increases abroad partially offset by decreases in domestic markets. Foreign price increases on infant foods, seafood, soap and cooking oil were partially offset by price decreases in core products in the United Kingdom. In the U.S., price decreases in Weight Watchers brand frozen entrees, StarKist tuna and pet food were partially offset by increases in Ore-Ida frozen potatoes, soup, Weight Watchers meeting fees, sauces/pastes and Heinz ketchup.

Foreign currencies strengthened against the U.S. dollar, increasing sales $120.7 million, or 2%, which represented the first increase after three consecutive years of unfavorable currency movements. This increase came primarily from sales in New Zealand, the United Kingdom, Japan and Australia.

In the United Kingdom, competitive pressures and a difficult trade environment continued to affect both sales volume and pricing. In 1995, unseasonably warm weather adversely affected soup sales. In the fourth quarter of 1995, however, Heinz U.K.'s results showed improvement due to better pricing and overall volume improvements.

Gross profit increased $302.2 million in 1995 to $2.97 billion from $2.66 billion in 1994, due primarily to higher sales levels. The ratio of gross profit to sales decreased 1.1% to 36.7%. An unfavorable profit mix related to recent acquisitions, including the associated amortization of goodwill, prior-year divestitures and higher foodservice sales negatively affected the current year's gross profit ratio. Improvements resulting from production efficiencies implemented in prior years had a positive effect on gross profit.

The company completed several productivity improvement and cost reduction initiatives under its two-year restructuring program for which a pretax charge of $192.3 million had been recorded in 1993. During 1994, the company reduced headcount at its Australian operations; closed a pet food plant in Pascagoula, Mississippi; downsized and consolidated StarKist Seafood headquarters functions with those of Heinz Pet Products in Newport, Kentucky; realigned production at Ore-Ida's Ontario, Oregon factory; downsized the domestic administration of Weight Watchers International meeting operations; downsized the administrative functions of the Italian operations; reduced manufacturing headcount and reorganized administrative functions in the United Kingdom; consolidated domestic sales service functions into the Heinz Service Company; and realigned production between Canada and the United States. During 1995, the company completed the transfer of pickle and soup production from Canadian to U.S. facilities; closed the Chef Francisco frozen soup factory in Eugene, Oregon and relocated production to other company facilities; further reduced manufacturing and administrative headcount in the United Kingdom; downsized the foreign administration of Weight Watchers meeting operations; and further consolidated sales service functions related to the Heinz Service Company. In total, more than 2,700 positions were eliminated.

In 1995, the company initiated additional productivity improvements for which a charge was recorded in operating income. The 1995 initiatives included: severance, relocation and exit costs associated with the downsizing of the company's Crestar Food Products unit; the relocation of certain administrative functions related to the Weight Watchers Gourmet Food business; non-cash asset write-downs associated with the company's distribution system and severance costs in Italy. The effect of the 1995 charge was immaterial.

SG&A expenses increased $87.7 million to $1.81 billion from $1.72 billion, but decreased as a percentage of sales to 22.4% from 24.5%. Increased selling and distribution costs associated with acquisitions and higher volume contributed the majority of the increase. The improved ratio of SG&A expenses as a percentage of sales resulted mainly from a reduction in marketing and administrative costs in existing businesses.

Total marketing support (including trade and consumer promotions and media) increased 12% to $1.7 billion, which helped fuel sales volume and profit growth.

Operating income increased $87.5 million in 1995 to $1.16 billion from $1.07 billion. In 1994, operating income included the gain on the sale of the confectionery business of Heinz Italia and the sale of the Near East specialty rice business, which together totaled $127.0 million. Excluding the gain, operating income increased $214.5 million, or 23%. The increase in operating income was primarily due to the sales-driven increase in gross profit.

The Weight Watchers businesses (meetings and food) showed significant profit improvement in 1995. Meeting attendance in the U.S. increased over 1994, which was affected by the Los Angeles earthquake, a severe winter and an industry-wide decline in attendance. Although the entire weight-loss industry continued to show weakness in 1995, the Weight Watchers meetings market share exceeded 50%. Weight Watchers food business showed improved profitability mainly through more targeted marketing, reduced administrative expenditures and cost savings from productivity enhancements.

Non-operating expenses totaled $217.8 million in 1995 compared to $146.0 million in 1994. Interest expense increased $61.3 million, or 41%, due to higher short-term interest rates and higher debt related to current-year acquisitions and the company's share repurchase program.

The effective tax rate was 37.0% in 1995 and 34.6% in 1994. The lower 1994 effective tax rate reflects tax benefits from overseas operations ($57.3 million). (See Note 4 to the Consolidated Financial Statements.)

Net income decreased $11.9 million, or 2%, to $591.0 million from $602.9 million in the prior year, which included the gain on the sale of the confectionery and specialty rice businesses. Earnings per share increased to $1.59 from $1.57. Earnings per share benefited slightly from a reduction in the number of common shares outstanding resulting from the company's share repurchase program. The 1994 results included a gain of $0.16 per share from the sale of the confectionery business of Heinz Italia and the sale of the Near East specialty rice business and the recognition of certain tax benefits overseas of $0.15 per share. Excluding the $0.16 per share gain from the sale of the confectionery and specialty rice businesses, earnings per share increased $0.18, or 13%.

The impact of fluctuating exchange rates for 1995 remained relatively consistent on a line-by-line basis throughout the Consolidated Statement of Income.

LIQUIDITY AND FINANCIAL POSITION

In 1996, cash provided by operating activities was sufficient to provide for dividend payments to shareholders, as well as productivity improvements and plant expansions. Divestitures combined with the sale of certain investments were used to provide for current-year acquisitions. Proceeds from stock options exercised and cash from the related tax benefit approximated cash used for current-year share repurchases. Overall, total borrowings decreased slightly.

Return on average shareholders' equity (ROE) was 25.5% in 1996, 24.6% in 1995 and 25.9% in 1994. Pretax return on average invested capital (ROIC) was 21.8% in 1996, 22.1% in 1995 and 22.7% in 1994.

Cash provided by operating activities was $737.1 million in 1996, compared to $752.5 million in 1995. The slight decrease in 1996 versus 1995 was the result of higher working capital needs, due mainly to higher sales levels. Cash used for accrued liabilities totaled $114.0 million compared to $72.6 million a year ago, resulting mainly from the funding of accruals established upon the purchase of certain businesses. (See Note 2 to the Consolidated Financial Statements.)

In 1995, cash provided by operating activities decreased $178.7 million to $752.5 million, from $931.2 million in 1994. The decrease was the result of higher taxes paid and higher operating working capital requirements principally related to increased sales levels.

Cash used for investing activities was $290.1 million in 1996 versus $1.47 billion in 1995. The decrease is mainly due to lower current-year spending on acquisitions, which totaled $156.0 million versus $1.18 billion a year ago. (See Note 2 to the Consolidated Financial Statements.)

Capital expenditures totaled $334.8 million in 1996 and $341.8 million in 1995. Both years reflected expenditures for productivity improvements and plant expansions, principally at the company's Ore-Ida, Heinz Pet Products, Heinz U.S.A., Wattie's, Weight Watchers Gourmet Food Company, StarKist Seafood and United Kingdom operations.

Purchases and sales/maturities of short-term investments decreased in 1996. In 1995, increased activity provided liquidity to fund various acquisitions made by the company. In addition, the company periodically sells a portion of its short-term investment portfolio in order to reduce its borrowings. Investments in tax benefits provided $62.1 million compared to $14.4 million a year ago, due mainly to the company's sale of certain domestic investments.

Financing activities used $470.8 million in 1996 compared to providing $733.4 million in 1995. The company borrowed funds totaling $1.19 billion in 1995 versus making net repayments of $81.7 million in the current year. Cash used for dividends paid to shareholders increased by $36.5 million, while treasury stock purchases decreased $118.5 million. Stock options exercised provided an additional $51.6 million in 1996.

The average amount of short-term debt outstanding (excluding the long-term portion of domestic commercial paper) during 1996, 1995 and 1994 was $1.5 billion, $1.2 billion and $1.2 billion, respectively. Total short-term debt had a weighted average interest rate during 1996 of 6.5% and at year-end of 6.2%. The weighted average interest rate on short-term debt during 1995 was 6.1% and at year-end was 6.7%.

Aggregate domestic commercial paper had a weighted average interest rate during 1996 of 5.8% and at year-end of 5.4%. In 1995, the weighted average rate was 5.3% and the rate at year-end was 6.1%. Based upon the amount of commercial paper recorded at May 1, 1996, a variance of ⅛% in the related interest rate would cause interest expense to change by approximately $1.9 million. The company continues to evaluate long-term financing vehicles in order to reduce short-term variable interest rate debt.

On September 5, 1995, the company amended the line of credit agreements which support its domestic commercial paper programs, reducing availability and extending maturity dates. Total availability under the credit agreements is $2.0 billion, compared to $2.3 billion under the Fiscal 1995 agreements.

The $1.5 billion of short-term credit lines that were set to expire in September 1995 were reduced to $1.2 billion and extended to September 1996. It is expected that the company will extend the maturity date of these lines prior to their expiration.

The maturity date of the remaining $800.0 million of line of credit agreements was extended from September 1999 to September 2000. As of May 1, 1996, $800.0 million of domestic commercial paper outstanding is classified as long-term debt due to the long-term nature of the supporting line of credit agreements. At May 3, 1995, a similar amount of domestic commercial paper was classified as long-term. As of May 1, 1996 and May 3, 1995, domestic commercial paper of $450.0 million was privately placed.

On September 12, 1995, the Board of Directors raised the quarterly dividend on the company's common stock from $0.24 per share to $0.26½ per share for an indicated annual rate of $1.06 per share. The company paid $381.9 million in dividends to both common and preferred shareholders, an increase of $36.5 million, or 11%, over 1995. The dividend rate in effect at the end of each year resulted in a payout ratio of 60.6% in 1996, 60.5% in 1995 and 56.2% in 1994.

In 1996, the company repurchased 4.8 million shares of treasury stock, or 1% of the amount outstanding at the beginning of Fiscal 1996, at a cost of $155.2 million. As of May 1, 1996, the company had repurchased 10.1 million shares as part of the current 15.0 million share repurchase program, which was authorized by the Board of Directors on September 13, 1994. The previous 15.0 million share repurchase program, which began in June 1993, was completed in September 1994. During 1995, 11.5 million shares were repurchased at a cost of $273.7 million. The company may reissue repurchased shares upon the exercise of stock options, conversion of preferred stock and for general corporate purposes.

The Board of Directors adopted, effective June 12, 1996, subject to the approval of the shareholders at the annual meeting in September 1996, a new stock option plan providing for the grant of up to 15.0 million shares of common stock at any time over the next ten years. As of June 12, 1996, options for approximately 2.0 million shares had been contingently granted under this plan. In general, the terms of the 1996 plan are similar to the company's other stock option plans. (See Note 8 to the Consolidated Financial Statements.)

During 1995, the company participated in the formation of a business (the "entity") which purchases a portion of the trade receivables generated by the company. The company sells receivables to Jameson, Inc., a wholly owned subsidiary, which then sells undivided interests in the receivables to the entity. Outside investors contributed $95.4 million in capital to the entity. The company consolidates the entity, and the capital contributed by the outside investors is classified as minority interest ("other long-term liabilities") on the Consolidated Balance Sheets.

The company uses derivative financial instruments for the purpose of hedging currency, commodity price and interest rate exposures which exist as part of ongoing business opera-

tions. As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes. (See Notes 1 and 11 to the Consolidated Financial Statements.)

On August 24, 1995 and September 7, 1995, the Howard Heinz Endowment, the Vira I. Heinz Endowment, the Heinz Family Foundation and certain Heinz family trusts sold a total of 21.8 million shares of the company's common stock in an underwritten secondary offering. The secondary offering was priced at $28.25 per share. The company did not sell any shares in the offering and did not receive any of the proceeds.

In March 1995, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standard ("FAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The company will adopt the statement in Fiscal 1997, as required. Management anticipates that implementation of the new standard will not have a material effect on results of operations or financial position. (See Note 1 to the Consolidated Financial Statements.)

In October 1995, the FASB issued FAS No. 123, "Accounting for Stock-Based Compensation." This statement will be effective beginning in Fiscal 1997. This statement allows companies either to continue to account for stock-based employee compensation plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("Opinion 25"), or to adopt a fair value based method, as defined in the new standard. The company will continue to account for stock compensation in accordance with Opinion 25.

The impact of inflation on both the company's financial position and results of operations has been minimal and is not expected to adversely affect 1997 results.

The company's financial position continues to remain strong, enabling it to meet cash requirements for operations, capital expansion programs and dividends to shareholders.

OUTLOOK

The company expects total debt to decrease in 1997 through continued strong operating cash flows, improved working capital management and capital expenditure controls, which should result in improved profitability through lower interest charges. The company will, however, continue to evaluate strategic acquisitions in its core categories as they arise and to make opportunistic share repurchases, both of which could impact total debt.

RECENT DEVELOPMENTS

On July 10, 1996, the company acquired Southern Country Foods Limited, one of the world's largest producers of canned corned beef and meals. Southern Country Foods, with annual sales of approximately $55 million, sells two-thirds of its products in the Pacific Rim, the Middle East and Canada and will operate as part of H.J. Heinz Australia Ltd.

Also on July 10, 1996, the Board of Directors authorized the repurchase of up to an additional 15.0 million shares of common stock, beginning upon the conclusion of the current repurchase authorization. Such repurchases may take place over an extended period of time.

STOCK MARKET INFORMATION

H.J. Heinz Company common stock is traded principally on the New York Stock Exchange and the Pacific Stock Exchange, under the symbol HNZ. The number of shareholders of record of the company's common stock as of June 28, 1996 approximated 62,496. The closing price of the common stock on the New York Stock Exchange composite listing on May 1, 1996 was $33¾. All common stock price information reflects the three-for-two stock split, which was effective October 3, 1995.

Stock price information for common stock by quarter follows:

	Stock Price Range	
	High	Low
1996		
First	**$31 [illegible]**	**$27 [illegible]**
Second	**31 [illegible]**	**27 [illegible]**
Third	**34 [illegible]**	**30 [illegible]**
Fourth	**36 [illegible]**	**30 [illegible]**
1995		
First	$23 [illegible]	$21⅛
Second	25 [illegible]	21⅜
Third	27½	23 [illegible]
Fourth	28¼	24 [illegible]

SEGMENT AND GEOGRAPHIC DATA

The company is engaged principally in one line of business—processed food products—which represents more than 90% of consolidated sales. The following table presents information about the company by geographic area. There were no material amounts of sales or transfers among geographic areas and no material amounts of United States export sales.

(Dollars in thousands)	Domestic	Foreign	Worldwide	North America	Europe	Asia/Pacific	Other
1996							
Sales	**$5,235,847**	**$3,876,418**	**$9,112,265**	**$5,598,286**	**$2,133,690**	**$1,085,747**	**$294,542**
Operating income	**739,807**	**547,765**	**1,287,572**	**801,090**	**336,481**	**114,239**	**35,762**
Identifiable assets	**4,801,790**	**3,821,901**	**8,623,691**	**5,099,632**	**2,289,919**	**978,292**	**255,848**
Capital expenditures*	**185,874**	**148,913**	**334,787**	**195,517**	**65,485**	**40,294**	**33,491**
Depreciation and amortization expense	**206,912**	**136,897**	**343,809**	**224,824**	**72,530**	**30,674**	**15,781**
1995							
Sales	$4,628,507	$3,458,287	$8,086,794	$4,982,959	$1,881,013	$1,006,198	$216,624
Operating income	656,897	498,912	1,155,809	715,592	282,941	121,951	35,325
Identifiable assets	4,812,122	3,435,066	8,247,188	5,161,418	1,979,351	919,988	186,431
Capital expenditures*	188,099	153,689	341,788	201,912	72,384	48,435	19,057
Depreciation and amortization expense	197,009	118,258	315,267	213,243	68,122	28,214	5,688
1994							
Sales	$4,021,436	$3,025,302	$7,046,738	$4,380,310	$1,685,167	$ 816,943	$164,318
Operating income†	534,395	533,948	1,068,343	587,622	371,794	89,359	19,568
Identifiable assets	3,657,114	2,724,032	6,381,146	3,992,820	1,551,477	729,240	107,609
Capital expenditures*	154,505	120,547	275,052	167,473	65,802	33,491	8,286
Depreciation and amortization expense	161,219	98,590	259,809	177,398	54,543	23,433	4,435

Excludes property, plant and equipment acquired through acquisitions.

† Fiscal 1994 domestic and foreign operating income includes the gain on the sale of the confectionery and specialty rice businesses of $46.3 million and $80.7 million, respectively.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

H.J. Heinz Company and Subsidiaries

Fiscal Year Ended	*May 1, 1996*	*May 3, 1995*	*April 27, 1994*
(Dollars in thousands, except per share data)	*(52 weeks)*	*(53 weeks)*	*(52 weeks)*
CONSOLIDATED STATEMENTS OF INCOME:			
Sales	**$9,112,265**	$8,086,794	$7,046,738
Cost of products sold	**5,775,357**	5,119,597	4,381,745
Gross profit	**3,336,908**	2,967,197	2,664,993
Selling, general and administrative expenses	**2,049,336**	1,811,388	1,723,651
Gain on sale of confectionery and specialty rice businesses	**–**	–	127,001
Operating income	**1,287,572**	1,155,809	1,068,343
Interest income	**44,824**	36,566	36,771
Interest expense	**277,411**	210,585	149,243
Other expense, net	**31,324**	43,783	33,485
Income before income taxes	**1,023,661**	938,007	922,386
Provision for income taxes	**364,342**	346,982	319,442
Net income	**$ 659,319**	$ 591,025	$ 602,944
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS:			
Amount at beginning of year	**$3,878,988**	$3,633,385	$3,356,399
Net income	**659,319**	591,025	602,944
Cash dividends:			
Common stock	**381,871**	345,358	325,887
Preferred stock	**56**	64	71
Amount at end of year	**$4,156,380**	$3,878,988	$3,633,385
PER COMMON SHARE AMOUNTS:			
Net income	**$ 1.75**	$ 1.59	$ 1.57
Cash dividends	**$ 1.03½**	$ 0.94	$ 0.86
Average shares for earnings per share	**377,155,837**	372,806,306	385,218,024

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

H.J. Heinz Company and Subsidiaries

Fiscal Year Ended (Dollars in thousands)	May 1, 1996 (52 weeks)	May 3, 1995 (53 weeks)	April 27, 1994 (52 weeks)
OPERATING ACTIVITIES:			
Net income	$ 659,319	$ 591,025	$ 602,944
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	254,640	238,229	200,035
Amortization	89,169	77,038	59,774
Deferred tax provision	135,235	134,304	106,803
Gain on sale of confectionery and specialty rice businesses	-	—	(127,001)
Other items, net	(82,198)	(43,680)	(55,767)
Changes in current assets and liabilities, excluding effects of acquisitions and divestitures:			
Receivables	(222,894)	(77,039)	135,195
Inventories	(102,269)	(87,580)	9,742
Prepaid expenses and other current assets	(14,361)	(27,634)	14,688
Accounts payable	126,596	111,361	67,660
Accrued liabilities	(114,015)	(72,644)	(110,822)
Income taxes	7,866	(90,874)	27,954
Cash provided by operating activities	737,088	752,506	931,205
INVESTING ACTIVITIES:			
Capital expenditures	(334,787)	(341,788)	(275,052)
Acquisitions, net of cash acquired	(156,006)	(1,178,819)	(95,685)
Proceeds from divestitures	82,061	52,497	265,573
Purchases of short-term investments	(982,824)	(1,808,327)	(598,486)
Sales and maturities of short-term investments	1,050,971	1,800,992	680,208
Investment in tax benefits	62,081	14,436	1,400
Other items, net	(11,637)	(12,819)	(5,377)
Cash (used for) investing activities	(290,141)	(1,473,828)	(27,419)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	4,860	573,689	991
Payments on long-term debt	(46,791)	(10,209)	(18,249)
(Payments on) proceeds from short-term debt, net	(39,745)	630,310	(398,333)
Dividends	(381,927)	(345,422)	(325,958)
Purchase of treasury stock	(155,200)	(273,671)	(222,582)
Proceeds from minority interest	-	95,400	—
Proceeds from borrowings against insurance policies	6,361	70,931	134,162
Repayments of borrowings against insurance policies	-	(68,898)	(65,264)
Exercise of stock options	95,853	44,263	22,645
Other items, net	45,788	17,014	11,042
Cash (used for) provided by financing activities	(470,801)	733,407	(861,546)
Effect of exchange rate changes on cash and cash equivalents	(10,420)	13,717	(12,136)
Net (decrease) increase in cash and cash equivalents	(34,274)	25,802	30,104
Cash and cash equivalents at beginning of year	124,338	98,536	68,432
Cash and cash equivalents at end of year	$ 90,064	$ 124,338	$ 98,536

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

H.J. Heinz Company and Subsidiaries

Assets (Dollars in thousands)	*May 1, 1996*	*May 3, 1995*
CURRENT ASSETS:		
Cash and cash equivalents	**$ 90,064**	$ 124,338
Short-term investments, at cost which approximates market	**18,316**	82,693
Receivables (net of allowances: 1996 – $17,298 and 1995 – $16,309)	**1,207,874**	1,030,790
Inventories:		
Finished goods and work-in-process	**1,115,367**	1,004,350
Packaging material and ingredients	**378,596**	370,220
	1,493,963	1,374,570
Prepaid expenses	**221,669**	190,412
Other current assets	**14,806**	20,219
Total current assets	**3,046,692**	2,823,022
PROPERTY, PLANT AND EQUIPMENT:		
Land	**62,243**	60,955
Buildings and leasehold improvements	**824,308**	804,762
Equipment, furniture and other	**3,333,493**	3,138,937
	4,220,044	4,004,654
Less accumulated depreciation	**1,603,216**	1,470,278
Total property, plant and equipment, net	**2,616,828**	2,534,376
OTHER NON-CURRENT ASSETS:		
Investments, advances and other assets	**573,645**	543,032
Goodwill (net of amortization: 1996 – $211,693 and 1995 – $163,793)	**1,737,478**	1,682,933
Other intangibles (net of amortization: 1996 – $141,886 and 1995 – $117,430)	**649,048**	663,825
Total other non-current assets	**2,960,171**	2,889,790
Total assets	**$8,623,691**	$8,247,188

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity (Dollars in thousands)	May 1, 1996	May 3, 1995
CURRENT LIABILITIES:		
Short-term debt	$ 994,586	$1,018,354
Portion of long-term debt due within one year	87,583	55,937
Accounts payable	870,337	720,747
Salaries and wages	72,678	77,276
Accrued marketing	146,055	141,701
Other accrued liabilities	368,182	470,842
Income taxes	175,701	79,209
Total current liabilities	2,715,122	2,564,066
LONG-TERM DEBT AND OTHER LIABILITIES:		
Long-term debt	2,281,659	2,326,785
Deferred income taxes	319,936	348,576
Non-pension postretirement benefits	209,994	220,673
Other	390,223	314,219
Total long-term debt and other liabilities	3,201,812	3,210,253
SHAREHOLDERS' EQUITY:		
Capital stock:		
Third cumulative preferred, $1.70 first series, $10 par value	271	358
Common stock, 431,096,485 shares issued, $.25 par value	107,774	107,774
	108,045	108,132
Additional capital	154,602	121,291
Retained earnings	4,156,380	3,878,988
Cumulative translation adjustments	(155,753)	(157,159)
	4,263,274	3,951,252
Less:		
Treasury shares, at cost (62,498,417 shares at May 1, 1996 and 65,587,400 shares at May 3, 1995)	1,500,866	1,450,724
Unfunded pension obligation	32,550	–
Unearned compensation relating to the ESOP	23,101	27,659
Total shareholders' equity	2,706,757	2,472,869
Total liabilities and shareholders' equity	$8,623,691	$8,247,188

1. SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year: H.J. Heinz Company (the "company") operates on a 52- or 53-week fiscal year ending the Wednesday nearest April 30. However, certain foreign subsidiaries have earlier closing dates to facilitate timely reporting. Fiscal years for the financial statements included herein ended May 1, 1996, May 3, 1995 and April 27, 1994.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its subsidiaries. All intercompany accounts and transactions were eliminated. Certain prior-year amounts have been reclassified in order to conform with the 1996 presentation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Translation of Foreign Currencies: For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in net income for the period.

Cash Equivalents: Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined principally under the average cost method.

Property, Plant and Equipment: Land, buildings and equipment are recorded at cost. For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are generally used for income tax purposes. Expenditures for new facilities and improvements that substantially extend the capacity or useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When property is retired or otherwise disposed, the cost and related depreciation are removed from the accounts and any related gains or losses are included in income.

Intangibles: Goodwill and other intangibles arising from acquisitions are being amortized on a straight-line basis over periods not exceeding 40 years. The company regularly reviews the individual components of the balances by evaluating the future cash flows of the businesses to determine the recoverability of the assets and recognizes, on a current basis, any diminution in value.

Long-Lived Assets: In March 1995, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standard ("FAS") No. 121, "Accounting for the Impairment of Long-Lived

Assets and for Long-Lived Assets to Be Disposed Of." This statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. This statement requires that those assets to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and those assets to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The company will adopt the statement in Fiscal 1997. Management anticipates that implementation of the new standard will not have a material effect on results of operations or financial position.

Revenue Recognition: The company generally recognizes revenue upon shipment of goods to customers or upon performance of services. However, in certain overseas countries, revenue is recognized upon receipt of the product by the customer.

Advertising Expenses: Advertising costs are generally expensed in the year in which the advertising first takes place.

Income Taxes: Deferred income taxes result primarily from temporary differences between financial and tax reporting. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

The company has not provided for possible U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Calculation of the unrecognized deferred tax liability for temporary differences related to these earnings is not practicable. Where it is contemplated that earnings will be remitted, credit for foreign taxes already paid generally will offset applicable U.S. income taxes. In cases where they will not offset U.S. income taxes, appropriate provisions are included in the Consolidated Statements of Income.

Net Income Per Common Share: Net income per common share has been computed by dividing income applicable to common shareholders by the weighted average number of shares of common stock outstanding and common stock equivalents during the respective years. On September 12, 1995, the company's Board of Directors authorized a three-for-two common stock split, effective October 3, 1995. There was no adjustment in the stock's par value or the total number of authorized common shares. All common share and per share amounts reflect the three-for-two common stock split, effective October 3, 1995. Where appropriate, prior-year amounts have been restated. Fully diluted earnings per share are not significantly different from primary earnings per share and, accordingly, are not presented.

Stock-Based Employee Compensation Plans: Stock-based compensation is accounted for by using the intrinsic value based method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("Opinion 25"). In October 1995, the FASB issued FAS No. 123, "Accounting for Stock-Based Compensation," which allows companies to either continue to account for stock-based compensation using Opinion 25, or to adopt a fair value based method of accounting. The company intends to continue with its current method of accounting in accordance with Opinion 25.

Financial Instruments: The company uses derivative financial instruments for the purpose of hedging currency, price and interest rate exposures which exist as part of ongoing business operations. As a policy, the company does not engage in speculative or leveraged transactions, nor does the company hold or issue financial instruments for trading purposes.

☐ *Interest Rate Swap Agreements:* The company may utilize interest rate swap agreements to lower funding costs, to diversify sources of funding or to alter interest rate exposure. Amounts paid or received on interest rate swap agreements are deferred and recognized as adjustments to interest expense. Gains and losses realized upon the settlement of such contracts are deferred and amortized to interest expense over the remaining term of the debt instrument or are recognized immediately if the underlying instrument is settled.

☐ *Foreign Currency Contracts:* The company enters into forward, option and swap contracts to hedge transactions denominated in foreign currencies in order to reduce the currency risk associated with fluctuating exchange rates. Such contracts are used primarily to hedge purchases of certain raw materials and finished goods and payments arising from certain intercompany transactions with foreign subsidiaries. Gains and losses are deferred in the cost basis of the underlying transaction.

☐ *Commodity Contracts:* In connection with purchasing certain commodities for future manufacturing requirements, the company enters into commodities futures and option contracts, as deemed appropriate, to reduce the effect of price fluctuations. Such contracts are accounted for as hedges, with gains and losses recognized as part of cost of products sold, and generally have a term of less than one year.

The cash flows related to the above financial instruments are classified in the Statements of Cash Flows in a manner consistent with those of the transactions being hedged.

Business Segment Information: Information concerning business segment and geographic data is in Management's Discussion and Analysis.

2. ACQUISITIONS

All of the following acquisitions have been accounted for as purchases and, accordingly, the respective purchase prices have been allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. Operating results of businesses acquired have been included in the Consolidated Statements of Income from the respective acquisition dates forward.

Fiscal 1996: The company acquired the following businesses for a total of $193.4 million, including notes to sellers of $37.4 million. The preliminary allocations of purchase price resulted in goodwill of $128.1 million and other intangibles of $6.6 million, which will be amortized on a straight-line basis over periods not exceeding 40 years.

On March 28, 1996, the company acquired the Nature's Recipe business, which markets a brand of premium specialty pet foods.

On March 6, 1996, the company acquired Earth's Best, Inc. of Boulder, Colorado, which produces a leading brand of premium, organic baby foods and will complement the company's range of infant cereals, juices and strained and junior foods.

The company acquired a majority interest in PMV/Zabreh, a producer of infant formulas and dairy products located in Zabreh, Moravia, Czech Republic. PMV/Zabreh holds leading market shares in both the Czech and Slovak Republics for infant formula, sold through pharmacies under the Sunar and Feminar brand names.

The company increased its investment to 97% of Kecskeméti Konzervgyár RT, which produces jarred baby foods and canned vegetable products in Kecskemet, Hungary.

Other small acquisitions were also made during Fiscal 1996, including Fattoria Scaldasole S.p.A., which is a processor of organic foods in Italy; Alimentos Pilar S.A. of Argentina, a leading producer of pet and animal feed; the Craig's brand of jams and dressings in New Zealand; the Mareblu brand of canned tuna, which is sold exclusively in Italy; a majority interest in Indian

Ocean Tuna Ltd., located in the Seychelles; and Britwest Ltd., which markets single-serve condiments, beverages and sauces in Britain and France.

Pro forma results of the company, assuming the Fiscal 1996 acquisitions had been made at the beginning of each period presented, would not be materially different from the results reported.

Fiscal 1995: On March 14, 1995, the company completed the acquisition of the North American pet food businesses of The Quaker Oats Company (the "Pet Food Business") for approximately $725 million. Among the major brands of the Pet Food Business are Kibbles'n Bits dry dog food; Cycle canned and dry dog food; Gravy Train dry dog food (U.S. only); Ken-L Ration canned dog food; and Snausages, Pup-Peroni and Pounce pet treats. The acquisition has significantly strengthened the company's presence in the pet food industry. The funds used to acquire the Pet Food Business were provided primarily through the issuance of privately placed commercial paper.

The allocation of the purchase price has resulted in goodwill of $532.5 million and other intangible assets of $146.2 million. These items are being amortized on a straight-line basis over periods not exceeding 40 years.

In 1995, in connection with the acquisition of the Pet Food Business, the company had established certain opening balance sheet accruals for employee severance and relocation costs and facilities consolidation and closure costs based upon management's preliminary assessment of such actions to be undertaken. During 1996, management finalized integration plans and made minor adjustments to the opening balance sheet, while approximately $29 million was spent against such accruals. Remaining accruals are considered adequate for any severance, relocation or exit costs associated with the acquisition.

The following pro forma information combines the consolidated results of operations as if the acquisition of the Pet Food Business had been consummated as of the beginning of the periods presented, after including the impact of certain adjustments. Adjustments include (i) the amortization of goodwill and other intangibles; (ii) interest expense related to the acquisition debt; (iii) depreciation on the restated values of property, plant and equipment; and (iv) the related income tax effects.

	(Unaudited)	
(Dollars in thousands, except per share amounts)	*1995*	*1994*
Sales	$8,502,405	$7,539,502
Net income	$ 585,803	$ 595,389
Net income per share	$ 1.57	$ 1.55

During 1995, the company also acquired the following other businesses (the "other 1995 acquisitions").

On December 2, 1994, the company acquired The All American Gourmet Company for a purchase price of approximately $200 million. The All American Gourmet Company produces The Budget Gourmet brand of frozen meals and side dishes and was formerly a part of Kraft General Foods, Inc.

On September 30, 1994, the company acquired the Family Products Division of Glaxo India, Ltd. for a purchase price of approximately $65 million. The Family Products Division, based in Bombay, India, produces a wide range of nutritional drinks, baby food and other consumer products.

On July 22, 1994, the company acquired the Farley's infant foods and adult nutrition business from The Boots Company PLC of Nottingham, England for a total purchase price of approximately $140 million. Farley's product offerings include a wide range of infant feeding products, from formulas to post-weaning biscuits, cereals and dry meals.

On May 16, 1994, the company acquired the Borden Foodservice Group, a unit of Borden, Inc. The group's product range includes a single-serve line of condiments. Other acquisitions during 1995 included Dega, a foodservice products company located in Italy.

The allocation of the purchase prices of the other 1995 acquisitions (excluding the Pet Food Business) has resulted in goodwill of $142.0 million and other intangible assets of $168.3 million, which will be amortized on a straight-line basis over periods not exceeding 40 years.

On an unaudited pro forma basis, the sales of the company, as if the acquisition of the Pet Food Business and the other 1995 acquisitions were made as of the beginning of 1995 and 1994, are $8.7 billion and $8.2 billion, respectively. The results of operations would not be materially different from those reported.

Pro forma results are not necessarily indicative of what actually would have occurred if the acquisitions had been in effect for the entire periods presented. In addition, they are not intended to be a projection of future results and do not reflect any synergies that might be achieved from combined operations.

The company had established opening balance sheet accruals for the other 1995 acquisitions for employee severance and relocation costs and facilities consolidation and closure costs based upon management's preliminary assessment of such actions to be undertaken. During 1996, accruals for exit costs were reduced by $23 million, resulting in a corresponding reduction to goodwill. This was primarily attributable to not pursuing a course of action that was anticipated at the acquisition date. Also during 1996, approximately $15 million was spent against the accruals established for employee severance and relocation costs, and exit costs. Remaining accruals are considered adequate for any severance, relocation or exit costs associated with the other 1995 acquisitions.

Fiscal 1994: In 1994, the company purchased the Moore's and Domani product lines from The Clorox Company of Oakland, California for approximately $90 million. The acquisition resulted in goodwill of approximately $53 million, which is being amortized over a period of 40 years.

Pro forma results of the company, assuming the Fiscal 1994 acquisition had been made at the beginning of 1994, would not be materially different from the results reported.

3. DIVESTITURES

During each of the three years in the period ended May 1, 1996, the company sold several non-strategic businesses. Pro forma results of the company, assuming all of the divestitures had been made at the beginning of each period presented, would not be materially different from the results reported.

Fiscal 1996 divestitures include: an overseas sweetener business, the *Weight Watchers Magazine* and two regional dry pet food product lines. (See Note 12 to the Consolidated Financial Statements.)

In Fiscal 1994, the company sold its Near East specialty rice business to Golden Grain Company, a subsidiary of The Quaker Oats Company, for approximately $80 million. The sale included trademarks, inventory and fixed assets, including Near East's Leominster, Massachusetts plant. Also in Fiscal 1994, the company sold its confectionery business of Heinz Italia S.p.A. to Hershey Foods Corporation for approximately $133 million. The divestiture included brand names, inventory and fixed assets. The pretax gain on these divestitures totaled $127.0 million, or $0.16 per share.

4. INCOME TAXES

The following table summarizes the provision for U.S. federal and U.S. possessions, state and foreign taxes on income.

(Dollars in thousands)	1996	1995	1994
Current:			
U.S. federal and U.S. possessions	**$106,848**	$114,819	$ 65,242
State	**11,475**	19,106	22,093
Foreign	**110,784**	78,753	125,304
	229,107	212,678	212,639
Deferred:			
U.S. federal and U.S. possessions	**87,239**	47,676	88,989
State	**10,408**	6,897	(2,635)
Foreign	**37,588**	79,731	20,449
	135,235	134,304	106,803
Total tax provision	**$364,342**	$346,982	$319,442

The tax benefit resulting from adjustments to the beginning-of-the-year valuation allowance, due to a change in circumstances, to recognize the realizability of deferred tax assets in future years totaled $12.5 million in 1996, $3.1 million in 1995 and $57.3 million in 1994. The 1996 tax provision was reduced by $24.9 million due to the recognition of foreign tax losses and was increased by $31.2 million due to charges related to the repatriation of foreign earnings. In 1994, changes in U.S. tax law that increased the U.S. statutory tax rate from 34% to 35% and provided for the deductibility of certain purchased intangibles did not have a material effect on the company's results of operations. Tax expense resulting from allocating certain tax benefits directly to additional capital totaled $41.7 million in 1996.

The components of income before income taxes consist of the following:

(Dollars in thousands)	1996	1995	1994
Domestic	**$ 500,034**	$495,159	$418,395
Foreign	**523,627**	442,848	503,991
	$1,023,661	$938,007	$922,386

The differences between the U.S. federal statutory tax rate and the company's consolidated effective tax rate are as follows:

	1996	1995	1994
U.S. federal statutory tax rate	**35.0%**	35.0%	35.0%
Tax on income of foreign subsidiaries	**0.5**	0.9	2.9
State income taxes (net of federal benefit)	**1.8**	2.1	1.4
Net valuation allowance	**(1.3)**	2.2	(6.1)
Tax credits	**(0.2)**	(2.7)	–
Earnings repatriation	**3.0**	1.6	1.2
Recognition of foreign tax losses	**(2.4)**	(0.1)	0.1
Other	**(0.8)**	(2.0)	0.1
Effective tax rate	**35.6%**	37.0%	34.6%

The deferred tax (assets) and deferred tax liabilities recorded on the balance sheets as of May 1, 1996 and May 3, 1995 are as follows:

(Dollars in thousands)	1996	1995
Depreciation/amortization	$ 420,179	$ 355,874
Benefit plans	69,040	55,877
Other	133,673	117,249
	622,892	529,000
Asset revaluations	–	(35,125)
Provision for estimated expenses	(45,910)	(55,921)
Operating loss carryforwards	(55,717)	(35,079)
Benefit plans	(122,448)	(101,042)
Tax credit carryforwards	(52,924)	(51,207)
Other	(142,609)	(113,869)
	(419,608)	(392,243)
Valuation allowance	35,594	49,487
Net deferred tax liabilities	$ 238,878	$ 186,244

At the end of 1996, *net operating loss carryforwards* totaled $137.5 million. Of that amount, $88.4 million expire between 1997 and 2010; the other $49.1 million do not expire. Foreign tax credit carryforwards total $52.9 million and expire through 2001.

The company's consolidated United States income tax returns have been audited by the Internal Revenue Service for all years through 1991.

Undistributed earnings of foreign subsidiaries considered to be reinvested permanently amounted to $1.52 billion at May 1, 1996.

The net change in the valuation allowance for deferred tax assets was a decrease of $13.9 million.

5. DEBT

Short-Term (Dollars in thousands)	1996	1995
Commercial paper	$685,067	$ 662,802
Bank and other borrowings	309,519	355,552
	$994,586	$1,018,354

On September 5, 1995, the company amended the line of credit agreements which support its domestic commercial paper programs, reducing availability and extending maturity dates. Total availability under the credit agreements is $2.0 billion, compared to $2.3 billion under the Fiscal 1995 agreements. Total domestic commercial paper had a weighted average interest rate during 1996 of 5.8% and at year-end of 5.4%. The weighted average interest rate during 1995 was 5.3% and at year-end was 6.1%.

The $1.5 billion of short-term credit lines that were set to expire in September 1995 were reduced to $1.2 billion and extended to September 1996. It is expected that the company will extend the maturity date of these lines prior to their expiration.

The maturity date of the remaining $800.0 million of line of credit agreements was extended from September 1999 to September 2000. As of May 1, 1996, $800.0 million of domestic commercial paper outstanding is classified as long-term debt due to the long-term nature of the supporting line of credit agreements. At May 3, 1995, a similar amount of domestic commercial paper was classified as long-term. As of May 1, 1996 and May 3, 1995, domestic commercial paper of $450.0 million was privately placed.

The company also maintains a commercial paper program in Canada. Outstanding Canadian commercial paper, which is classified as short-term debt, was $1.1 million as of May 1, 1996 and $45.1 million as of May 3, 1995. The weighted average interest rate for Canadian commercial paper during 1996 was 6.1%, and at year-end was 5.2%. The weighted average interest rate during 1995 was 6.6%, and at year-end was 8.2%. The company had $639.7 million of other foreign lines of credit available at year-end, principally for overdraft protection.

Total short-term debt had a weighted average interest rate during 1996 of 6.5% and at year-end of 6.2%. The weighted average interest rate on short-term debt during 1995 was 6.1% and at year-end was 6.7%.

Long-Term (Dollars in thousands)	*Range of Interest*	*Maturity (Fiscal Year)*	*1996*	*1995*
United States Dollars:				
Commercial paper	Variable	2001	**$ 800,000**	$ 800,000
Senior unsecured notes	5.50–6.88%	1998–2003	**749,532**	749,386
Eurodollar bonds	7.50–8.00	1997–2000	**628,119**	629,834
Revenue bonds	5.63–11.75	1997–2003	**10,781**	10,814
Promissory notes	5.69–10.00	1997–2005	**60,154**	27,579
Other	8.10	1997	**6,797**	7,527
			2,255,383	2,225,140
Foreign Currencies (U.S. Dollar Equivalents):				
Promissory notes:				
Pounds sterling	8.85%	1997–2006	**51,100**	65,781
Italian lire	4.90–16.25	1997–2004	**34,487**	27,673
Other	4.51–14.90	1997–2005	**28,272**	64,128
			113,859	157,582
Total long-term debt			**2,369,242**	2,382,722
Less portion due within one year			**87,583**	55,937
			$2,281,659	$2,326,785

The amount of long-term debt that matures in each of the four years succeeding 1997 is: $580.7 million in 1998, $26.8 million in 1999, $580.0 million in 2000 and $815.4 million in 2001.

On January 5, 1995, the company issued $300.0 million of three-year 8.0% notes in the international capital markets. The proceeds from the notes were utilized to repay domestic commercial paper. The company entered into an interest rate swap agreement that effectively converted the fixed interest rate associated with the notes to a variable rate based on LIBOR. Due to favorable market conditions, the company terminated the interest rate swap agreement and is amortizing the resulting gain over the remaining life of the notes, producing an effective borrowing rate of 7.3%.

On April 26, 1995, the company issued $250.0 million of five-year 7.5% notes in the international capital markets. The proceeds from these notes were used to repay a portion of the privately placed commercial paper borrowings incurred in connection with the acquisition of the Pet Food Business.

In 1993, the company's United Kingdom affiliate privately placed with various banks £125.0 million ($197.0 million) aggregate principal of 8.85% notes due during 2013. In April 1993, an affiliated company paid £70.6 million ($111.3 million) for an interest in the notes. The notes are shown in the balance sheet as a net amount outstanding of £33.2 million ($50.2 million), which will be fully amortized in four years. The effective interest rate was 8.3% at May 1, 1996 and May 3, 1995.

6. SHAREHOLDERS' EQUITY

Capital Stock: On September 12, 1995, the company's Board of Directors authorized a three-for-two common stock split, effective October 3, 1995. There was no adjustment in the stock's par value or the total number of authorized common shares. All common share and per share amounts reflect the three-for-two common stock split. Shareholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying from additional capital to common stock the par value of the additional shares arising from the split.

The preferred stock outstanding is convertible at a rate of one share of preferred stock into 13.5 shares of common stock which reflects the three-for-two stock split. The company can redeem the stock at $28.50 per share.

On May 1, 1996, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

Employee Stock Ownership Plan (ESOP): The company established an ESOP in 1990 to replace in full or in part the company's cash-matching contributions to the H.J. Heinz Company Employees Retirement and Savings Plan, a 401(k) plan for salaried employees. Matching contributions to the 401(k) plan are based on a percentage of the participants' contributions, subject to certain limitations.

To finance the plan, the ESOP borrowed $50.0 million directly from the company in 1990. The loan is in the form of a 15-year variable-rate interest-bearing note (an average of 5.5%, 5.6% and 4.2% for 1996, 1995 and 1994, respectively) and is included in the company's Consolidated Balance Sheets as unearned compensation. The proceeds of the note were used to purchase 2,366,862 shares of treasury stock from the company at approximately $21.13 per share.

The stock held by the ESOP is released for allocation to the participants' accounts over the term of the loan as company contributions to the ESOP are made. The company contributions are reported as compensation and interest expense. Compensation expense related to the ESOP for 1996, 1995 and 1994 was $2.3 million, $3.7 million and $3.3 million, respectively. Interest expense was $1.5 million, $1.9 million and $1.7 million for 1996, 1995 and 1994, respectively. The company's contributions to the ESOP and the dividends on the company stock held by the ESOP are used to repay loan interest and principal.

The dividends on the company stock held by the ESOP were $2.1 million, $2.5 million and $1.9 million in 1996, 1995 and 1994, respectively.

The ESOP shares outstanding at May 1, 1996 were as follows: unallocated 958,141; committed-to-be-released 29,553; and allocated 1,036,904. Shares held by the ESOP are considered outstanding for purposes of calculating the company's net income per share.

Cumulative Translation Adjustments: Changes in the cumulative translation component of shareholders' equity result principally from translation of financial statements of foreign subsidiaries into U.S. dollars. The reduction in shareholders' equity related to the translation component decreased $1.4 million in 1996, decreased $107.0 million in 1995 and increased $70.7 million in 1994.

Unfunded Pension Obligation: An adjustment for unfunded foreign pension obligations in excess of unamortized prior service costs was recorded, net of tax, as a reduction in shareholders' equity. (See Note 9 to the Consolidated Financial Statements.)

	Cumulative Preferred Stock	Common Stock				
	Third, $1.70 First Series $10 Par	Issued		In Treasury		Additional Capital
(Amounts in thousands)	Amount	Amount	Shares	Amount	Shares	Amount
Balance April 28, 1993	$438	$107,774	431,096	$1,046,905	49,554	$134,384
Reacquired	–	–	–	222,582	9,713	–
Conversion of preferred into common stock	(40)	–	–	(985)	(54)	(945)
Stock options exercised	–	–	–	(27,605)	(1,581)	267*
Other, net	–	–	–	(1,720)	(92)	549
Balance April 27, 1994	$398	$107,774	431,096	$1,239,177	57,540	$134,255
Reacquired	–	–	–	273,671	11,456	–
Conversion of preferred into common stock	(40)	–	–	(976)	(54)	(937)
Stock options exercised, net of shares tendered for payment	–	–	–	(53,305)	(3,035)	(12,264)*
Other, net	–	–	–	(7,843)	(320)	237
Balance May 3, 1995	**$358**	**$107,774**	**431,096**	**$1,450,724**	**65,587**	**$121,291**
Reacquired	**–**	**–**	**–**	**155,200**	**4,806**	**–**
Conversion of preferred into common stock	**(87)**	**–**	**–**	**(2,674)**	**(117)**	**(2,587)**
Stock options exercised, net of shares tendered for payment	**–**	**–**	**–**	**(101,751)**	**(7,747)**	**35,797***
Other, net	**–**	**–**	**–**	**(633)**	**(31)**	**101**
Balance May 1, 1996	**$271**	**$107,774**	**431,096**	**$1,500,866**	**62,498**	**$154,602**
Authorized Shares—May 1, 1996	**27**		**600,000**			

**Includes income tax benefit resulting from exercised stock options.*

7. SUPPLEMENTAL CASH FLOWS INFORMATION

(Dollars in thousands)	**1996**	1995	1994
Cash Paid During The Year For:			
Interest	**$308,564**	$ 210,610	$146,951
Income taxes	**143,646**	251,358	153,000
Details of Acquisitions:			
Fair value of assets	**$269,907**	$1,359,028	$102,382
Liabilities †	**113,697**	179,942	6,697
Cash paid	**156,210**	1,179,086	95,685
Less cash acquired	**204**	267	–
Net cash paid for acquisitions	**$156,006**	$1,178,819	$ 95,685

† Includes notes to sellers of $37.4 million in 1996.

8. EMPLOYEES' STOCK OPTION PLANS AND MANAGEMENT INCENTIVE PLANS

Under the company's stock option plans, officers and other key employees may be granted options to purchase shares of the company's common stock. The option price on all outstanding options is equal to the fair market value of the stock at the date of grant.

The shares authorized but not granted under the company's stock option plans were 3,421,235 at May 1, 1996 and 5,459,835 at May 3, 1995.

Data regarding the company's stock option plans follows:

	Shares	*Range of Option Price*
Shares under option April 28, 1993	30,186,663	$ 5⅝–28⅞
Options granted	14,201,250	20⅝–26½
Options exercised	(1,581,345)	6⅜–25⅛
Options surrendered	(710,250)	23–28⅞
Shares under option April 27, 1994	42,096,318	$ 5⅝–28⅞
Options granted	3,568,050	21¾–27¾
Options exercised	(3,038,937)	5⅝–25⅞
Options surrendered	(454,500)	21¾–28⅞
Shares under option May 3, 1995	**42,170,931**	**$ 9¼–28⅞**
Options granted	**2,154,100**	**28⅜–33**
Options exercised	**(11,713,653)**	**9¼–28⅞**
Options surrendered	**(115,500)**	**22⅛–27¾**
Shares under option May 1, 1996	**32,495,878**	**$12⅜–33**
Options exercisable at:		
May 3, 1995	17,754,381	
May 1, 1996	**12,252,228**	

Common stock reserved for options totaled 35,917,113 shares as of May 1, 1996 and 47,630,766 shares as of May 3, 1995.

On June 12, 1996, the Board of Directors adopted, subject to the approval of the shareholders at the annual meeting in September 1996, a new stock option plan providing for the grant of up to 15.0 million shares of common stock at any time over the next 10 years. In general, the terms of the 1996 plan are similar to the company's other stock option plans. Also on June 12, 1996, options for 4.3 million shares were granted, of which 2.0 million were contingently granted under the 1996 plan.

The company's management incentive plan covers officers and other key employees. Participants may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Compensation under the management incentive plans was approximately $37 million in 1996, $24 million in 1995 and $12 million in 1994.

9. RETIREMENT PLANS

The company maintains retirement plans for the majority of its employees. Current defined benefit plans are provided primarily for domestic union and foreign employees. Benefits are based on years of service and compensation or stated amounts for each year of service. Plan assets are primarily invested in equities and fixed income securities. The company's funding policy for domestic defined benefit plans is to contribute annually not less than the ERISA minimum funding standards nor more than the maximum amount which can be deducted for federal income tax purposes. Generally, foreign defined benefit plans are funded in amounts sufficient to comply with local regulations and ensure adequate funds to pay benefits to retirees as they become due.

Effective in 1993, the company discontinued future benefit accruals under the defined benefit plans for domestic non-union hourly and salaried employees and expanded its defined contribution plans for these same employees.

The company maintains defined contribution plans for the majority of its domestic non-union hourly and salaried employees. Defined contribution benefits are provided through company contributions that are a percentage of the participant's pay based on age, with the contribution rate increasing with age, and matching contributions based on a percentage of the participant's contributions to the 401(k) portion of the plan. (The company's matching contributions for salaried employees are provided under the ESOP. See Note 6 to the Consolidated Financial Statements.) In addition, certain non-union hourly employees receive supplemental contributions, which are paid at the discretion of the company.

Total pension cost consisted of the following:

(Dollars in thousands)	1996	1995	1994
Defined Benefit Plans:			
Benefits earned during the year	$ 13,675	$ 14,648	$ 15,215
Interest cost on projected benefit obligation	74,623	66,734	66,706
Actual return on plan assets	(200,592)	(26,254)	(98,673)
Net amortization and deferral	117,461	(56,285)	25,028
	5,167	(1,157)	8,276
Defined contribution plans (excluding the ESOP)	25,946	17,222	16,493
Total pension cost	$ 31,113	$ 16,065	$ 24,769

The following table sets forth the combined funded status of the company's principal defined benefit plans at May 1, 1996 and May 3, 1995.

	Plans for Which Assets Exceed Accumulated Benefits		Plans for Which Accumulated Benefits Exceed Assets	
(Dollars in thousands)	1996	1995	1996	1995
Actuarial present value of:				
Accumulated benefit obligation, primarily vested	$737,026	$774,830	$187,275	$ 84,510
Additional obligation for projected compensation increases	26,725	29,070	27,896	19,683
Projected benefit obligation	763,751	803,900	215,171	104,193
Plan assets, at fair value	962,510	920,591	138,505	48,548
Projected benefit obligation less than (in excess of) assets	198,759	116,691	(76,666)	(55,645)
Unamortized prior service cost	71,824	75,380	7,735	2,473
Unamortized actuarial (gains) losses, net	(60,439)	47,947	75,944	41,806
Unamortized net (assets) liabilities at date of adoption	(23,366)	(34,145)	(1,310)	2,722
Additional minimum liability	–	–	(54,472)	(4,827)
Prepaid (accrued) pension costs	$186,778	$205,873	$(48,769)	$(13,471)

The 1996 adjustment for unfunded foreign pension obligations in excess of the unamortized prior service costs was recorded, net of tax, as a reduction in shareholders' equity of $32.6 million. The remaining portion of the unfunded obligation was recorded as other long-term assets and deferred taxes in the amounts of $2.8 million and $19.1 million, respectively.

The weighted average rates used for the years ended May 1, 1996, May 3, 1995 and April 27, 1994 in determining the net pension costs and projected benefit obligations for defined benefit plans were as follows:

	1996	1995	1994
Expected rate of return on plan assets	**9.4%**	10.0%	10.0%
Discount rate	**8.4%**	8.7%	8.3%
Compensation increase rate	**5.3%**	5.2%	4.8%

Assumptions for foreign defined benefit plans are developed on a basis consistent with those for U.S. plans, adjusted for prevailing economic conditions.

10. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The company and certain of its subsidiaries provide health care and life insurance benefits for retired employees and their eligible dependents. Certain of the company's U.S. and Canadian employees may become eligible for such benefits. In general, postretirement medical coverage is provided for eligible non-union hourly and salaried employees with at least 10 years of service rendered after the age of 45 and certain eligible union employees who retire with an immediate pension benefit. The company currently does not fund these benefit arrangements and may modify plan provisions or terminate plans at its discretion.

Effective January 1, 1994, certain changes were made to postretirement medical benefits offered to U.S. salaried and non-union hourly employees who retire after May 1, 1994. Those retirees were required to share in the cost of providing these benefits at percentages increasing from 20% in 1994 to 100% in 1998. The resulting curtailment gain was immaterial. Effective May 1, 1996, the retiree cost-sharing rate will be held at 50%.

Net postretirement costs consisted of the following:

(Dollars in thousands)	1996	1995	1994
Postretirement benefits earned during the year	**$ 2,736**	$ 2,700	$ 6,512
Interest cost on accumulated postretirement benefit obligation	**13,350**	13,249	15,740
Net amortization and deferral	**(6,583)**	(5,165)	(2,986)
Net postretirement benefit costs	**$ 9,503**	$10,784	$19,266

The following table sets forth the combined status of the company's postretirement benefit plans at May 1, 1996 and May 3, 1995.

(Dollars in thousands)	1996	1995
Accumulated postretirement benefit obligation:		
Retirees and spouses	$109,006	$121,380
Employees currently eligible to retire	21,756	17,614
Employees not yet eligible to retire	31,899	36,763
Total accumulated postretirement benefit obligation	162,661	175,757
Unamortized prior service cost	21,380	38,510
Unrecognized net gain	34,953	15,406
Accrued postretirement benefit obligation	218,994	229,673
Current portion, included in other accrued liabilities	9,000	9,000
Non-pension postretirement benefits	$209,994	$220,673

The weighted average discount rate used in the calculation of the accumulated postretirement benefit obligation and the net postretirement benefit cost was 8.1% in 1996 and 8.4% in 1995. The assumed annual composite rate of increase in the per capita cost of company-provided health care benefits begins at 9.9% for 1997, gradually decreases to 5.6% by 2007, and remains at that level thereafter. A 1% increase in these health care cost trend rates would cause the accumulated postretirement obligation to increase by $20.5 million, and the aggregate of the service and interest components of 1996 net postretirement benefit costs to increase by $2.8 million.

In 1995, the company adopted FAS No. 112, "Employers' Accounting for Postemployment Benefits." This statement requires recognition of benefits provided by an employer to former or inactive employees after employment but before retirement. The impact of the adoption of this standard did not have a material impact on the company's financial position or results of operations.

11. FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements: As of May 1, 1996 and May 3, 1995, the notional values and unrealized gains or losses related to such agreements held by the company were not material.

Foreign Currency Contracts: As of May 1, 1996 and May 3, 1995, the company held currency swap contracts with an aggregate notional amount of approximately $400 million and $102 million, respectively. These contracts have maturity dates extending from 1997 through 2002. The company also had separate contracts to purchase certain foreign currencies as of May 1, 1996 and May 3, 1995 totaling $444.8 million and $258.9 million, respectively, and to sell certain foreign currencies totaling $66.5 million and $69.6 million, respectively, most of which mature within one year of the respective fiscal year-end. Net unrealized gains and losses associated with the company's foreign currency contracts as of May 1, 1996 and May 3, 1995 were not material.

Commodity Contracts: As of May 1, 1996 and May 3, 1995, the notional values and unrealized gains or losses related to commodity contracts held by the company were not material.

Fair Value of Financial Instruments: The company's significant financial instruments include cash and cash equivalents, short- and long-term investments, short- and long-term debt, interest rate swap agreements, currency exchange agreements and guarantees.

In evaluating the fair value of significant financial instruments, the company generally uses quoted market prices of the same or similar instruments or calculates an estimated fair value on a discounted cash flow basis using the rates available for instruments with the same remaining maturities. As of May 1, 1996 and May 3, 1995, the fair value of financial instruments held by the company approximated the recorded value.

Effective April 28, 1994, the company adopted FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." FAS No. 115 requires that the carrying value of certain investments be adjusted to their fair value. The adoption of FAS No. 115 had no effect on the company's financial position or results of operations. The company's investments are considered to be "available-for-sale" securities and are principally debt securities issued by foreign governments.

Concentrations of Credit Risk: Counterparties to currency exchange and interest rate derivatives consist of large major international financial institutions. The company continually monitors its positions and the credit ratings of the counterparties involved and, by policy, limits the amount of credit exposure to any one party. While the company may be exposed to potential losses due to the credit risk of non-performance by these counterparties, losses are not anticipated. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers, generally short payment terms, and their dispersion across geographic areas.

12. QUARTERLY RESULTS (UNAUDITED)

			1996		
(Dollars in thousands, except per share data)	*First*	*Second*	*Third*	*Fourth*	*Total*
Sales	**$2,094,293**	**$2,288,277**	**$2,193,138**	**$2,536,557**	**$9,112,265**
Gross profit	**774,308**	**822,931**	**812,308**	**927,361**	**3,336,908**
Net income	**174,469**	**158,167**	**156,484**	**170,199**	**659,319**
Per Common Share Amounts:					
Net income	**$0.46**	**$0.42**	**$0.42**	**$0.45**	**$1.75**
Dividends	**0.24**	**0.26½**	**0.26½**	**0.26½**	**1.03½**

			1995		
(Dollars in thousands, except per share data)	*First*	*Second*	*Third*	*Fourth*	*Total*
Sales	$1,736,098	$1,975,381	$1,953,855	$2,421,460	$8,086,794
Gross profit	634,648	705,756	721,451	905,342	2,967,197
Net income	154,716	139,592	138,267	158,450	591,025
Per Common Share Amounts:					
Net income	$0.41	$0.37	$0.38	$0.43	$1.59
Dividends	0.22	0.24	0.24	0.24	0.94

Fourth-quarter 1996 results include gains related to the sale of the *Weight Watchers Magazine* ($0.02 per share) and the sale of two regional dry pet food product lines ($0.02 per share) and a charge for restructuring costs at certain overseas affiliates ($0.01 per share).

Fourth-quarter 1996 earnings also benefited from a lower effective tax rate resulting from the recognition of tax losses overseas and increased profits from operations in lower tax rate jurisdictions ($0.04 per share). (See Note 4 to the Consolidated Financial Statements.)

Fourth-quarter 1995 results contain an additional week of activity due to a 53-week fiscal year.

13. COMMITMENTS AND CONTINGENCIES

Legal Matters: On December 31, 1992, a food wholesale distributor filed suit against the company and its principal competitors in the U.S. baby food industry. Subsequent to that date, several similar lawsuits were filed in the same court and have been consolidated into a class action suit. The complaints, each of which seeks an injunction and unspecified treble money damages, allege a conspiracy to fix, maintain and stabilize the prices of baby food. Related suits have also been filed in Alabama and California state courts, seeking to represent a class of indirect purchasers of baby food in the respective states. The defendants have filed a motion for summary judgment to which the plaintiffs have filed a response. The company believes all of the suits are without merit and will defend itself vigorously against them. Certain other claims have been filed against the company or its subsidiaries and have not been finally adjudicated. The above-mentioned suits and claims, when finally concluded and determined, in the opinion of management, based upon the information that it presently possesses, will not have a material adverse effect on the company's consolidated financial position or results of operations.

Lease Commitments: Operating lease rentals for warehouse, production and office facilities and equipment amounted to approximately $87.1 million in 1996, $89.5 million in 1995 and $94.0 million in 1994. Future lease payments for non-cancellable operating leases as of May 1, 1996 totaled $261.0 million (1997–$55.3 million, 1998–$48.8 million, 1999–$38.9 million, 2000–$32.3 million, 2001–$23.6 million and thereafter–$62.1 million).

14. ADVERTISING COSTS

Advertising costs for fiscal years 1996, 1995 and 1994 were $415.7 million, $338.6 million and $341.7 million, respectively.

RESPONSIBILITY STATEMENTS

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management of H.J. Heinz Company is responsible for the preparation of the financial statements and other information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, incorporating management's best estimates and judgments, where applicable.

Management believes that the company's internal control systems provide reasonable assurance that assets are safeguarded, transactions are recorded and reported appropriately, and policies are followed. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its systems provide this appropriate balance. An important element of the company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to this program is emphasized through written policies and procedures (including a code of conduct), an effective internal audit function and a qualified financial staff.

The company engages independent public accountants who are responsible for performing an independent audit of the financial statements. Their report, which appears herein, is based on obtaining an understanding of the company's accounting systems and procedures and testing them as they deem necessary.

The company's Audit Committee is composed entirely of outside directors. The Audit Committee meets regularly, and when appropriate separately, with the independent public accountants, the internal auditors and financial management to review the work of each and to satisfy itself that each is discharging its responsibilities properly. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of
H.J. Heinz Company:

We have audited the accompanying Consolidated Balance Sheets of H.J. Heinz Company and Subsidiaries at May 1, 1996 and May 3, 1995, and the related Consolidated Statements of Income, Retained Earnings and Cash Flows for each of the three years in the period ended May 1, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of H.J. Heinz Company and Subsidiaries at May 1, 1996 and May 3, 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 1, 1996, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

600 Grant Street
Pittsburgh, Pennsylvania
June 18, 1996

DIRECTORS AND OFFICERS

H.J. Heinz Company

DIRECTORS

Anthony J.F. O'Reilly *
Chairman and
Chief Executive Officer.
Director since 1971. (1,3,5,6)

William R. Johnson †
President and
Chief Operating Officer.
Director since 1993. (1)

Joseph J. Bogdanovich
Vice Chairman.
Director since 1963. (1,3,6)

Nicholas F. Brady
Chairman and President,
Darby Advisors, Inc. and Chairman,
Darby Overseas Investments, Ltd.,
Easton, Maryland.
Director from 1987 through
September 1988.
Reelected 1993. (3,4)

Richard M. Cyert
President Emeritus and Professor
of Economics and Management,
Carnegie Mellon University,
Pittsburgh, Pennsylvania.
Director since 1984. (2,3,4,6)

Thomas S. Foley
Partner, Akin, Gump, Strauss, Hauer &
Feld, L.L.P. law firm, Washington, D.C.
Director since 1995. (2,6)

Edith E. Holiday
Attorney and Director,
Various Corporations.
Director since 1994. (4,6)

Samuel C. Johnson
Nonexecutive Chairman, S.C. Johnson
& Son, Inc., Racine, Wisconsin.
Director since 1988. (2,4)

Donald R. Keough
Advisor to the Board,
The Coca-Cola Company, Atlanta,
Georgia and Chairman of the
Board, Allen & Co. Incorporated,
New York, New York.
Director since 1990. (2,3)

Albert Lippert
Consultant.
Director since 1978. (3,4,6)

Lawrence J. McCabe
Senior Vice President–
General Counsel.
Director since 1991. (1)

Luigi Ribolla †
Executive Vice President and
President–Heinz Europe.
Director since 1992. (1)

Herman J. Schmidt
Director, Various Corporations.
Director since 1977. (2,3,4,6)

David W. Sculley ‡
Senior Vice President.
Director since 1989. (1,5)

Eleanor B. Sheldon
Social Scientist.
Director since 1979. (2,4,6)

William P. Snyder III
President, The Wilpen Group, Inc.,
Pittsburgh, Pennsylvania.
Director since 1961. (2,3,4)

William C. Springer †
Executive Vice President–
The Americas.
Director since 1993. (1)

S. Donald Wiley
Vice Chairman, H.J. Heinz
Company Foundation.
Director from 1972 through
September 1990.
Reelected 1991. (6)

David R. Williams †
Executive Vice President–Finance
and Chief Financial Officer.
Director since 1992. (1,5)

COMMITTEES OF THE BOARD

(1) Executive Committee
(2) Management Development and Compensation Committee
(3) Nominating Committee
(4) Audit Committee
(5) Investment Committee
(6) Public Issues Committee

OFFICERS

Anthony J.F. O'Reilly *
Chairman and
Chief Executive Officer

William R. Johnson †
President and
Chief Operating Officer

Joseph J. Bogdanovich
Vice Chairman

John Crawshaw
Area Vice President–Pacific Rim

George C. Greer
Vice President–Organization
Development and Administration

Lawrence J. McCabe
Senior Vice President–
General Counsel

Tracy E. Quinn
Corporate Controller

Paul F. Renne
Vice President–Treasurer

Luigi Ribolla †
Executive Vice President and
President–Heinz Europe

Walter G. Schmid
Vice President

David W. Sculley ‡
Senior Vice President

D. Edward I. Smyth
Vice President–Corporate Affairs

William C. Springer †
Executive Vice President–
The Americas

Benjamin E. Thomas, Jr.
Corporate Secretary and
Associate General Counsel

David R. Williams †
Executive Vice President–Finance
and Chief Financial Officer

* Also President until June 12, 1996
† Since June 12, 1996
‡ Resigned effective September 1, 1996

ELEVEN-YEAR SUMMARY OF OPERATIONS AND OTHER RELATED DATA

H.J. Heinz Company and Subsidiaries

(Dollars in thousands, except per share data)	*1996*	*1995*	*1994*	*1993*
SUMMARY OF OPERATIONS:				
Sales	**$9,112,265**	$8,086,794	$7,046,738	$7,103,374
Cost of products sold	**5,775,357**	5,119,597	4,381,745	4,530,563
Interest expense	**277,411**	210,585	149,243	146,491
Provision for income taxes	**364,342**	346,982	319,442	185,838
Income before cumulative effect of accounting change	**659,319**	591,025	602,944	529,943
Cumulative effect of FAS No. 106 adoption	**–**	–	–	(133,630)
Net income	**659,319**	591,025	602,944	396,313
Income per common share before cumulative effect of accounting change	**1.75**	1.59	1.57	1.36
Cumulative effect of FAS No. 106 adoption	**–**	–	–	(0.34)
Net income per common share	**1.75**	1.59	1.57	1.02
OTHER RELATED DATA:				
Dividends paid:				
Common	**381,871**	345,358	325,887	297,009
per share	**1.03½**	0.94	0.86	0.78
Preferred	**56**	64	71	78
Average shares for earnings per share	**377,155,837**	372,806,306	385,218,024	389,682,692
Number of employees	**43,300**	42,200	35,700	37,700
Capital expenditures	**334,787**	341,788	275,052	430,713
Depreciation and amortization	**343,809**	315,267	259,809	234,935
Total assets	**8,623,691**	8,247,188	6,381,146	6,821,321
Total debt	**3,363,828**	3,401,076	2,166,703	2,613,736
Shareholders' equity	**2,706,757**	2,472,869	2,338,551	2,320,996
Pretax return on average invested capital	**21.8%**	22.1%	22.7%	18.7%
Return on average shareholders' equity before cumulative effect of accounting change	**25.5%**	24.6%	25.9%	22.0%
Book value per common share	**7.34**	6.76	6.26	6.08
Price range of common stock:				
High	**36⅝**	28⅝	26⅝	30⅛
Low	**27⅜**	21⅛	20½	23½

Share and per share amounts have been restated to reflect the three-for-two common stock split, effective October 3, 1995. The 1994 results include a pretax gain of $127.0 million relating to the divestiture of the confectionery and specialty rice businesses. The 1993 results include a pretax restructuring charge of $192.3 million. The 1992 results include a pretax gain of $221.5 million for the sale of The Hubinger Company, a pretax restructuring charge of $88.3 million and a pretax pension curtailment gain of $38.8 million.

1992	1991	1990	1989	1988	1987	1986
$6,581,867	$6,647,118	$6,085,687	$5,800,877	$5,244,230	$4,639,486	$4,366,177
4,102,816	4,063,423	3,726,613	3,550,249	3,212,580	2,858,096	2,697,264
134,948	137,592	108,542	77,694	73,995	50,978	57,956
346,050	335,014	306,979	284,661	236,559	226,070	197,594
638,295	567,999	504,451	440,230	386,014	338,506	301,734
—	—	—	—	—	—	—
638,295	567,999	504,451	440,230	386,014	338,506	301,734
1.60	1.42	1.26	1.11	0.97	0.82	0.73
—	—	—	—	—	—	—
1.60	1.42	1.26	1.11	0.97	0.82	0.73
270,512	239,212	207,387	178,340	154,418	132,278	117,351
0.70	0.62	0.54	0.46⅔	0.40⅓	0.33½	0.29⅙
86	91	113	134	155	177	227
399,508,683	399,942,926	399,117,144	395,352,102	398,117,835	410,503,998	411,947,103
35,500	34,100	37,300	36,200	39,000	37,500	36,400
331,143	345,334	355,317	323,325	238,265	184,730	206,331
211,786	196,138	168,523	148,104	133,348	109,868	91,400
5,931,901	4,935,382	4,487,451	4,001,807	3,605,083	3,364,197	2,837,364
1,902,483	1,226,694	1,256,607	962,321	780,330	876,620	540,588
2,367,398	2,274,863	1,886,899	1,777,238	1,593,856	1,392,949	1,360,007
28.8%	31.3%	31.3%	31.4%	30.0%	29.5%	31.0%
27.5%	27.3%	27.5%	26.1%	25.8%	24.6%	23.3%
6.21	5.84	4.96	4.61	4.16	3.60	3.39
32⅛	27⅝	23⅜	17⅛	17¼	16⅝	14⅛
23⅛	19⅝	16⅜	12⅝	11⅛	12¼	7⅛

WORLD LOCATIONS

H.J. Heinz Company and Subsidiaries

WORLD HEADQUARTERS

600 Grant Street, Pittsburgh, Pennsylvania.

THE AMERICAS

Heinz U.S.A. Established 1869. Pittsburgh, Pennsylvania. *Jeffrey P. Berger*, President–Foodservice Division. *Brian Ruder*, President–Retail Division. *Factories:* Chatsworth, California; Dallas, Texas; Escalon, California; Fremont, Ohio; Holland, Michigan; King of Prussia, Pennsylvania; Mason, Ohio; Muscatine, Iowa; Pittsburgh, Pennsylvania; Stockton, California; Tracy, California.

Ore-Ida Foods, Inc. Acquired 1965. Boise, Idaho. *Richard H. Wamhoff*, President and Chief Executive Officer. *Factories:* Bloomsburg, Pennsylvania; Burley, Idaho; Clarksville, Arkansas; Fort Atkinson, Wisconsin; Ft. Myers, Florida; Grand Island, Nebraska; Ontario, Oregon; Plover, Wisconsin; Rice Lake, Wisconsin; Torrance, California; West Chester, Pennsylvania.

Star-Kist Foods, Inc. Acquired 1963. Newport, Kentucky. *Joseph J. Bogdanovich*, Chairman. *Michael D. Milone*, President and Chief Operating Officer–Heinz Pet Products. *Peter L. Bowen*, President and Chief Operating Officer–StarKist Seafood Division. *Factories and Collection Stations:* Abidjan, Ivory Coast; Bloomsburg, Pennsylvania; Buenos Aires, Argentina; El Paso, Texas; Guayaquil, Ecuador; Kankakee, Illinois; Lawrence, Kansas; LePort, Reunion Island; Port Louis, Mauritius; Terminal Island, California; Topeka, Kansas; Weirton, West Virginia. *Liaison Offices:* Kaohsiung, Taiwan; Tokyo, Japan.

- ☐ *Star-Kist Caribe, Inc.* Acquired 1963. Mayaguez, Puerto Rico. *Mark W. Young*, Vice President–Caribbean Operations. *Factory:* Mayaguez.
- ☐ *Star-Kist Samoa, Inc.* Acquired 1963. Pago Pago, American Samoa. *Barry A. Mills*, Plant General Manager. *Factory:* Pago Pago.

Weight Watchers International, Inc. Acquired 1978. Woodbury, New York. *Lelio G. Parducci*, President and Chief Executive Officer. *Operational Headquarters:* Düsseldorf, Germany; Geneva, Switzerland; Helsingborg, Sweden; Helsinki, Finland; Maidenhead, England; Paris, France. *Publishing Group Headquarters:* New York, New York.

- ☐ *Cardio-Fitness Corporation.* Acquired 1985. New York, New York. *Kent Q. Kreh*, Chief Executive Officer.
- ☐ *The Fitness Institute.* Acquired 1988. Willowdale, Ontario, Canada. *Kent Q. Kreh*, Chief Executive Officer.

Weight Watchers Gourmet Food Company. Established 1991. Hamden, Connecticut. *Michael R. McGrath*, President and Chief Executive Officer. *Factories:* Clearfield, Utah; Massillon, Ohio; Pocatello, Idaho.

Crestar Food Products, Inc. Acquired 1991. Brentwood, Tennessee. *Donald J. Kerr*, President and Chief Executive Officer. *Factories:* Richfield, Ohio; Washington Courthouse, Ohio.

H.J. Heinz Company of Canada Ltd. Established 1909. North York, Ontario, Canada. *Paul W. Sneddon*, President and Chief Executive Officer. *Factory:* Leamington, Ontario.

- ☐ *Omstead Foods Limited.* Acquired 1991. Wheatley, Ontario, Canada. *Paul W. Sneddon*, President and Chief Executive Officer. *Factory:* Wheatley, Ontario.
- ☐ *Shady Maple Farm Ltd.* Acquired 1989. LaGuadeloupe, Quebec, Canada. *Paul W. Sneddon*, President and Chief Executive Officer. *Factory:* LaGuadeloupe, Quebec.
- ☐ *Heinz Bakery Products.* Established 1992. Mississauga, Ontario, Canada. *Anthony Pietramala*, President and Chief Operating Officer. *Factories:* Bakersfield, California; Blackwood, New Jersey; Bridgeport, New Jersey; Buffalo, New York; Lenexa, Kansas; Long Island, New York; Mississauga, Ontario; Sherwood Park, Alberta; St. Hubert, Quebec; Vinita, Oklahoma.

Alimentos Heinz C.A. Established 1959. Caracas, Venezuela. *John M. Werner*, Area Director–Latin America and President and Chief Executive Officer–Alimentos Heinz. *Factory:* San Joaquin.

EUROPE AND AFRICA

H.J. Heinz Company, Limited. Established 1905. Hayes, Middlesex, England. *A.G. Malcolm Ritchie*, Managing Director and Chief Executive Officer. *Factories:* Chorley; Harlesden; Kendal; Kitt Green; New Milton; Telford.

PLADA S.p.A. (Plasmon Dietetici Alimentari S.p.A.). Acquired 1963. Milan, Italy. *Claudio Serafini*, Managing Director and Chief Executive Officer. *Factories:* Latina; Milan; Ozzano Taro.

AIAL (Arimpex S.r.l. Industrie Alimentari). Acquired 1992. Commessaggio, Italy.

Dega S.r.l. Acquired 1994. Mori, Italy. *Factories:* Mori; Rovereto.

Fattoria Scaldasole S.p.A. Acquired 1996. Monguzzo, Italy. *Emilio Terzaghi*, President. *Factory:* Monguzzo.

Mareblu S.r.l. Acquired 1996. Milan, Italy. *Nicholas J. Harding*, President. *Adolfo Valsecchi*, Managing Director and Chief Executive Officer.

H.J. Heinz Northern Europe. Established 1995. Hayes, Middlesex, England. *Nicholas J. Harding*, Managing Director–Northern Europe.

- *H.J. Heinz B.V.* Acquired 1958. Elst, Gelderland, Netherlands. *Anthonie F. Hulsewé*, Director–Operations. *Tonjes H. Slob*, General Manager–Operations/Elst. *Factory:* Elst.
- *H.J. Heinz Branch Belgium.* Established 1984. Brussels, Belgium. *Jacques Meert*, Director–Marketing & Sales/ Benelux and Scandinavia.
- *H.J. Heinz GmbH.* Established 1970. Cologne, Germany. *Guus van Heereveld*, Director–Marketing & Sales/ Germany, Austria and Switzerland.
- *H.J. Heinz S.A.R.L.* Established 1979. Paris, France. *Michel Larroche*, Director–Retail Dry Goods Business.
- *Pioneer Food Cannery Ltd.* Acquired 1995. Tema, Ghana. *Eric Kwei*, Managing Director. *Theodor A. Morgado*, General Manager. *Factory:* Tema.
- *Ets. Paul Paulet S.A.* Acquired 1981. Douarnenez, France. *Nicholas J. Harding*, President. *Factory:* Douarnenez.
- *IDAL (Industrias de Alimentação, Lda.) Fish Division.* Acquired 1988. Peniche, Portugal. *Pedro S. Macedo*, General Manager. *Factory:* Peniche.
- *Indian Ocean Tuna Ltd.* Established 1995. Victoria, Mahe, Seychelles. *Nicholas J. Harding*, Chairman. *Radley Weber*, Managing Director. *Factory:* Victoria.

Heinz Iberica, S.A. Established 1987. Madrid, Spain. *Jose A. Arnaldo*, Managing Director. *Factories:* Alfaro; Bermeo; Ejea de los Caballeros.

IDAL (Industrias de Alimentação, Lda.). Acquired 1965. Lisbon, Portugal. *Leonardo A. P. Caeiro*, Managing Director. *Factory:* Benavente.

COPAIS Food & Beverage Company S.A. Acquired 1990. Athens, Greece. *Emmanuel Kaldellis*, Chairman, President and Chief Executive Officer. *Factories:* Aliartos; Orchomenos.

H.J. Heinz Central Eastern Europe. Established 1994. Pittsburgh, Pennsylvania. *Brian E. Falck*, Area Director–Central Eastern Europe.

- *Heinz Kecskeméti Konzervgyár RT.* Acquired 1992. Kecskemet, Hungary. *Casaba Lengyel de Bagota*, Managing Director. *Factories:* Kecskemet.
- *H.J. Heinz Company C.I.S.* Established 1994. Moscow, Russia. *Tim Lamb*, General Director. *Factory:* Stavropol.
- *Heinz Polska Sp.* Established 1994. Warsaw, Poland. *Adam Dyszynski*, General Manager.
- *PMV/Zabreh.* Acquired 1995. Zabreh, Czech Republic. *Antonin Ratajsky*, Managing Director. *Factory:* Zabreh.

H.J. Heinz Company (Ireland) Limited. Incorporated 1966. Dublin, Ireland. *John P.H. O'Reilly*, Managing Director.

Custom Foods Limited. Established 1992. Dundalk, Ireland. *John P.H. O'Reilly*, Chief Executive Officer. *Factory:* Dundalk.

H.J. Heinz Southern Africa. Established 1995. Johannesburg, South Africa. *Rory W. Beattie*, Area Director–Southern Africa.

- *H.J. Heinz (Botswana) (Proprietary) Ltd.* Formed 1988. Gaborone, Botswana. *Rory W. Beattie*, Managing Director.
- *Kgalagadi Soap Industries (Pty) Ltd.* Acquired 1988. Gaborone, Botswana. *Rory W. Beattie*, Managing Director. *Factory:* Gaborone.
- *Refined Oil Products.* Formed 1987. Gaborone, Botswana. *Rory W. Beattie*, Managing Director. *Factory:* Gaborone.
- *Olivine Industries (Private) Limited.* Acquired 1982. Harare, Zimbabwe. *Rory W. Beattie*, Chairman. *John G. Osterberg*, Managing Director. *Factory:* Harare.
- *Chegutu Canners (Pvt) Ltd.* Established 1992. Chegutu, Zimbabwe. *Rory W. Beattie*, Chairman. *Factory:* Chegutu.
- *Heinz South Africa (Pty) Ltd.* Established 1995. Johannesburg, South Africa. *Rory W. Beattie*, Area Director–Southern Africa.
- *Heinz Frozen Foods (Pty) Ltd.* Established 1995. Klerksdorp, South Africa. *Rory W. Beattie*, Chairman. *Factory:* Viljoenskroon.

Cairo Foods Industries SAE. Established 1992. Cairo, Egypt. *Moataz Al Alfi*, Chairman and Chief Executive Officer. *Factory:* Cairo.

THE PACIFIC RIM AND SOUTHWEST ASIA

H.J. Heinz Pacific Rim. Established 1996. *John Crawshaw*, Area Vice President.

- *H.J. Heinz Australia Ltd.* Established 1935. Doveton, Victoria, Australia. *Neville J. Fielke*, Managing Director. *K. A. Dynon*, Managing Director–Diversified Businesses. *Factories:* Dandenong; Eden; Girgarre.
- *Wattie's Limited.* Acquired 1992. Auckland, New Zealand. *David A. Irving*, Area Director–New Zealand. *Factories:* Auckland; Christchurch; Fielding; Gisborne; Hastings; New Plymouth; Te Horo.
- *Heinz Japan Ltd.* Established 1961. Tokyo, Japan. *Masahiro Ogawa*, President. *Factory:* Utsunomiya.
- *Heinz-UFE Ltd.* Established 1984. Guangzhou, People's Republic of China. *Daniel Lam*, Acting Managing Director. *Factory:* Guangzhou.
- *Seoul-Heinz Ltd.* Established 1986. Seoul, South Korea. *John K. Johnson*, President and Representative Director. *Factory:* Inchon.
- *Heinz Win Chance Ltd.* Established 1987. Bangkok, Thailand. *Ming-Der Guan*, President. *Factory:* Bangplee.

Heinz India Private Limited. Acquired 1994. Bombay, India. *Pradeep N. Poddar*, Managing Director. *Factory:* Aligarh.

CORPORATE DATA

Heinz: A Definition H.J. Heinz Company is a worldwide provider of processed food products and nutritional services. Heinz's varieties now number more than 4,000 and its business extends to loyal consumers in more than 200 countries and territories. The company's two strongest global brands are Heinz and Weight Watchers, which in the United States are joined by powerful names, such as Ore-Ida, The Budget Gourmet, Earth's Best, StarKist, 9-Lives, Ken-L Ration and many others. Overseas, Heinz's best-known brands are Orlando, Wattie's, Olivine, Farley's, Plasmon and Guloso. Heinz provides employment for approximately 43,300 people full-time, plus thousands of others on a part-time basis and during seasonal peaks.

Annual Meeting The annual meeting of the company's shareholders will be held at 2:00 p.m. on Tuesday, September 10, 1996 in Pittsburgh at Heinz Hall for the Performing Arts.

Form 10-K The company submits an annual report to the Securities and Exchange Commission on Form 10-K. Shareholders may obtain copies of this Form 10-K without charge by writing to the Corporate Affairs Department at the World Headquarters address.

Investor Information Securities analysts and investors seeking additional information about the company should contact John M. Mazur, Director–Investor Relations and Investment Planning, at the World Headquarters address or should call him at (412) 456-6014.

Equal Employment Opportunity H.J. Heinz Company hires, trains, promotes, compensates and makes all other employment decisions without regard to race, color, sex, age, religion, national origin, disability or other protected conditions or characteristics. It has affirmative action programs in place at all domestic locations to ensure equal opportunity for every employee.

Shareholders may obtain copies of the H.J. Heinz Company Equal Opportunity Report by writing to the Corporate Affairs Department at the World Headquarters address.

Corporate Data *Transfer Agent, Registrar and Disbursing Agent (for inquiries and changes in shareholder accounts or to arrange for the direct deposit of dividends):* ChaseMellon Shareholder Services, L.L.C., P.O. Box 444, Pittsburgh, Pennsylvania 15230. (800) 253-3399 (within U.S.A.) or (412) 236-8000.

Auditors: Coopers & Lybrand L.L.P., 600 Grant Street, Pittsburgh, Pennsylvania 15219

Stock Listing: New York Stock Exchange
Ticker Symbols: Common–HNZ
Third Cumulative Preferred–HNZ PR
Pacific Stock Exchange
Ticker Symbol: Common–HNZ

Copies Of This Publication Additional copies of this publication are available from the Corporate Affairs Department at the World Headquarters address or by calling (412) 456-6000.

Dividend Reinvestment The company offers an Automatic Dividend Reinvestment Service for Shareholders. The plan provides for the reinvestment of quarterly dividends in shares of the company's common stock. Shareholders may also purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and service charges under the plan. For a nominal charge to the shareholder, shares can be deposited for safekeeping.

For additional information regarding the dividend reinvestment plan, contact: Mellon Bank, N.A., P.O. Box 444, Pittsburgh, Pennsylvania 15230. (800) 253-3399 (within U.S.A.) or (412) 236-8000.

TDD Services ChaseMellon Shareholder Services can be accessed through telecommunications devices for the deaf (TDD).

Company News On-Call and Internet Access Heinz news releases, including earnings announcements, are available by fax 24 hours a day through Company News On-Call at (800) 758-5804. The Heinz extension is 402575. The On-Call information, plus quarterly and annual report summaries, also are posted on the Internet's World Wide Web at http://www.prnewswire.com.

Heinz

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H.J. Heinz Company

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